

# The Museum of Fine Arts, Houston

Financial Statements as of and for the Years  
Ended June 30, 2018 and 2017, 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, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years 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 2017 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 7, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Deloitte & Touche LLP*

November 7, 2018

# THE MUSEUM OF FINE ARTS, HOUSTON

## STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2018 AND 2017 (Dollars in thousands)

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	2018	2017
<b>ASSETS</b>		
TEMPORARILY RESTRICTED CASH AND CASH EQUIVALENTS	\$ 96,238	\$ 80,478
RECEIVABLES:		
Pledges	83,978	104,909
Grants	427	383
Accounts	6,296	8,258
Interest/dividends	<u>1,558</u>	<u>1,783</u>
Total receivables	<u>92,259</u>	<u>115,333</u>
INVENTORY	<u>809</u>	<u>597</u>
PREPAID EXPENSES	<u>627</u>	<u>1,500</u>
INVESTMENTS	<u>1,261,146</u>	<u>1,244,897</u>
PROPERTY—Net	<u>298,656</u>	<u>217,486</u>
OTHER ASSETS	<u>1,289</u>	<u>1,345</u>
TOTAL	<u>\$ 1,751,024</u>	<u>\$ 1,661,636</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 27,827	\$ 32,987
Deferred revenue	<u>16,417</u>	<u>16,620</u>
Total liabilities	<u>44,244</u>	<u>49,607</u>
COMMITMENTS (Note 3, 9)		
NET ASSETS:		
Unrestricted	465,777	372,746
Temporarily restricted	528,533	533,053
Permanently restricted	<u>712,470</u>	<u>706,230</u>
Total net assets	<u>1,706,780</u>	<u>1,612,029</u>
TOTAL	<u>\$ 1,751,024</u>	<u>\$ 1,661,636</u>

See notes to financial statements.

# THE MUSEUM OF FINE ARTS, HOUSTON

## STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
<b>OPERATING REVENUES:</b>					
Contributions and grants	\$ 13,706	\$ 2,074	\$ -	\$ 15,780	\$ 17,192
Investment returns designated for current use	35,327	201	-	35,528	34,211
Membership revenue	3,355	-	-	3,355	3,162
Admission revenue	4,661	-	-	4,661	4,775
Tuition revenue	1,986	-	-	1,986	2,031
Auxiliary revenue	3,419	-	-	3,419	2,845
Other	2,261	-	-	2,261	2,184
Net assets released from restriction	<u>3,936</u>	<u>(3,936)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating support and revenue	<u>68,651</u>	<u>(1,661)</u>	<u>-</u>	<u>66,990</u>	<u>66,400</u>
<b>OPERATING EXPENSES:</b>					
Program services:					
Curatorial and collections	8,410	-	-	8,410	9,096
Exhibitions	6,235	-	-	6,235	4,102
Education and public programs	7,818	-	-	7,818	7,586
Glassell School	3,882	-	-	3,882	3,487
Bayou Bend	3,962	-	-	3,962	4,212
Rienzi	1,285	-	-	1,285	1,193
Membership activities	1,213	-	-	1,213	1,191
Buildings and grounds and security	<u>11,823</u>	<u>-</u>	<u>-</u>	<u>11,823</u>	<u>12,033</u>
Subtotal program services	<u>44,628</u>	<u>-</u>	<u>-</u>	<u>44,628</u>	<u>42,900</u>
Supporting services:					
Management and general	11,407	-	-	11,407	11,306
Auxiliary activities	3,074	-	-	3,074	3,167
Fundraising	<u>5,056</u>	<u>-</u>	<u>-</u>	<u>5,056</u>	<u>4,425</u>
Subtotal supporting services	<u>19,537</u>	<u>-</u>	<u>-</u>	<u>19,537</u>	<u>18,898</u>
Total operating expenses before depreciation and amortization	<u>64,165</u>	<u>-</u>	<u>-</u>	<u>64,165</u>	<u>61,798</u>
OPERATING SURPLUS (DEFICIT) BEFORE DEPRECIATION AND AMORTIZATION	4,486	(1,661)	-	2,825	4,602
DEPRECIATION AND AMORTIZATION	<u>8,358</u>	<u>-</u>	<u>-</u>	<u>8,358</u>	<u>6,757</u>
CHANGES IN NET ASSETS FROM OPERATIONS	(3,872)	(1,661)	-	(5,533)	(2,155)
<b>CHANGES IN NONOPERATING ACTIVITIES:</b>					
Contributions designated for capital expenditures and long term investment	40	24,549	3,740	28,329	21,219
Contributions for the purchase of art	6,568	988	-	7,556	8,513
Investment returns designated for art acquisition	9,984	10,520	-	20,504	20,187
Acquisition of art objects net of proceeds from the sale of art	(20,446)	-	-	(20,446)	(27,576)
Investment return in excess of amounts designated for current use and art acquisition	(10,417)	71,462	-	61,045	97,519
Net assets released from restriction to fund non-operating activities	107,990	(107,990)	-	-	-
Endowment related expenses (net)	(2,262)	112	-	(2,150)	(1,235)
Other—Insurance	5,446	-	-	5,446	-
Clarification of donor intent	<u>-</u>	<u>(2,500)</u>	<u>2,500</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	93,031	(4,520)	6,240	94,751	116,472
NET ASSETS—Beginning of year	<u>372,746</u>	<u>533,053</u>	<u>706,230</u>	<u>1,612,029</u>	<u>1,495,557</u>
NET ASSETS—End of year	<u>\$ 465,777</u>	<u>\$ 528,533</u>	<u>\$ 712,470</u>	<u>\$ 1,706,780</u>	<u>\$ 1,612,029</u>

See notes to financial statements.

**THE MUSEUM OF FINE ARTS, HOUSTON**

**STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)  
(Dollars in thousands)**

Area	Program Services										Total	Management and General	Auxiliary Activities	Fund-Raising	Total	Total Expenses before Depreciation for the Year Ended June 30, 2018	Total Expenses before Depreciation for the Year Ended June 30, 2017
	Curatorial and Collections	Exhibitions	Education and Public Programs	Glassell School	Bayou Bend	Rienzi	Membership Activities	Buildings & Grounds/ Security	Total								
SALARIES	\$ 5,215	\$ 231	\$ 4,259	\$ 2,131	\$ 1,779	\$ 465	\$ 314	\$ 6,760	\$ 21,154	\$ 5,411	\$ 1,241	\$ 2,021	\$ 8,673	\$ 29,827	\$ 29,071		
EMPLOYEE BENEFITS	803	23	499	342	119	33	50	940	2,809	1,012	113	281	1,406	4,215	5,504		
PAYROLL TAXES	<u>378</u>	<u>17</u>	<u>307</u>	<u>140</u>	<u>63</u>	<u>15</u>	<u>22</u>	<u>594</u>	<u>1,536</u>	<u>353</u>	<u>89</u>	<u>133</u>	<u>575</u>	<u>2,111</u>	<u>2,042</u>		
Total	6,396	271	5,065	2,613	1,961	513	386	8,294	25,499	6,776	1,443	2,435	10,654	36,153	36,617		
POSTAGE AND SHIPPING	275	3,185	31	28	13	4	86	-	3,622	50	72	59	181	3,803	2,633		
CONTRACT SERVICES	72	-	152	157	522	202	57	409	1,571	611	218	983	1,812	3,383	3,290		
OCCUPANCY	23	-	95	34	181	297	-	1,394	2,024	1,176	37	1	1,214	3,238	3,058		
PROFESSIONAL FEES	627	453	472	289	118	6	72	7	2,044	890	112	171	1,173	3,217	3,377		
PROGRAMS AND PREVIEWS	79	1,861	48	188	431	60	1	-	2,668	24	4	3	31	2,699	2,679		
MISCELLANEOUS	106	14	319	203	181	65	18	(6)	900	867	62	134	1,063	1,963	1,333		
PROMOTION	8	5	796	36	53	21	439	-	1,358	29	14	555	598	1,956	1,447		
INSURANCE	425	12	-	74	49	18	-	602	1,180	234	3	5	242	1,422	1,496		
TRAVEL	248	393	105	67	15	9	3	2	842	138	31	349	518	1,360	985		
REPAIRS AND MAINTENANCE	10	29	11	3	214	42	-	886	1,195	105	4	-	109	1,304	1,068		
COST OF GOODS SOLD	-	-	-	-	55	-	-	-	55	-	1,024	-	1,024	1,079	1,069		
SUPPLIES	123	6	100	111	89	30	1	224	684	101	44	181	326	1,010	1,237		
PRINTING AND PUBLICATIONS	9	6	325	76	59	18	149	-	642	15	4	140	159	801	888		
DUES AND SUBSCRIPTIONS	9	-	56	3	11	-	1	11	91	313	2	40	355	446	393		
LIBRARY	-	-	243	-	10	-	-	-	253	-	-	-	-	253	155		
INTEREST AND TAXES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78</u>	<u>-</u>	<u>-</u>	<u>78</u>	<u>78</u>	<u>73</u>		
TOTAL	<u>\$8,410</u>	<u>\$6,235</u>	<u>\$7,818</u>	<u>\$3,882</u>	<u>\$3,962</u>	<u>\$1,285</u>	<u>\$1,213</u>	<u>\$11,823</u>	<u>\$44,628</u>	<u>\$11,407</u>	<u>\$3,074</u>	<u>\$5,056</u>	<u>\$19,537</u>	<u>\$64,165</u>	<u>\$61,798</u>		

See notes to financial statements.

# THE MUSEUM OF FINE ARTS, HOUSTON

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (Dollars in thousands)

	<b>2018</b>	<b>2017</b>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 94,751	\$ 116,472
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	8,358	6,757
Gains on sale of investments	(74,914)	(50,623)
Net unrealized appreciation on investments	(18,650)	(80,011)
Distributions from investing activities	29,224	39,842
Contributions restricted by donors	(31,350)	(26,632)
Decrease in receivables	23,074	28,641
Increase in inventory	(212)	(104)
Decrease (increase) in prepaid expenses	873	(384)
Decrease in liabilities	<u>(7,714)</u>	<u>(13,954)</u>
Net cash provided by operating activities	<u>23,440</u>	<u>20,004</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(87,177)	(59,093)
Return of capital on investments	34,822	52,310
Purchases of investments	(134,500)	(119,862)
Proceeds from sale of investments	147,769	71,908
(Increase) decrease in temporarily restricted cash and cash equivalents	(15,760)	8,075
Decrease in other assets	<u>56</u>	<u>26</u>
Net cash used in investing activities	<u>(54,790)</u>	<u>(46,636)</u>
CASH FLOWS FROM FINANCING ACTIVITY—Contributions restricted by donors		
	<u>31,350</u>	<u>26,632</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 \$2,351 and \$8,128 are included in accounts payable as of June 30, 2018 and 2017, respectively.

See notes to financial statements.



# THE MUSEUM OF FINE ARTS, HOUSTON

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (Dollars in thousands)

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### 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 69,996 works at June 30, 2018, 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 \$16,510 and \$22,689 for the years ended June 30, 2018 and 2017, respectively. The value of art objects obtained by gifts is reported as contributions and collection expense in the statements of activities and totaled \$3,936 and \$4,887 for the years ended June 30, 2018 and 2017, respectively. Deaccessions made during the years 2018 and 2017 had a fair market value of \$1 and \$19, 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, 2018 and 2017, the Museum received donated legal services valued at \$30 and \$89, respectively. In the years ended June 30, 2018 and 2017, the Museum received donated technology advisory and implementation services valued at \$0 and \$34, 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, 2018, 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 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.

In August 2016, the FASB issued ASU No. 2016-15, (ASU 2016-15), *Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues under Topic 230, *Statement of Cash Flows*, and other topics with the objective of reducing diversity of practice. ASU 2016-15 is effective for the Museum for the year beginning July 1, 2019. Management has not yet determined the impact, if any, that implementation of ASU 2016-15 will have on the Museum’s financial statements.

In November 2016, the FASB issued ASU No. 2016-18, (ASU 2016-18), *Statement of Cash Flows: Restricted Cash*, which addresses the diversity in practice in the classification and presentation in changes in restricted cash on the statement of cash flows under Topic 230, *Statement of Cash Flows*. The amendments require that a statement of cash flows explain the change during the period in total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for the Museum for the year beginning July 1, 2019. Management has not yet determined the impact, if any, that implementation of ASU 2016-18 will have on the Museum’s financial statements.

In August 2018, the FASB issued ASU No. 2018-08 (ASU 2018-08), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the accounting guidance to assist entities in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange transactions subject to other guidance, as well as determining whether a contribution is conditional. ASU 2018-08 is effective for the Museum for the year beginning July 1, 2019. Management has not yet determined the impact, if any, that implementation of ASU 2018-08 will have on the Museum's financial statements.

In August 2018, the FASB issued ASU No. 2018-13 (ASU 2018-13), *Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, to improve the effectiveness of the footnote disclosures. ASU 2018-13 is effective for the Museum for the year beginning July 1, 2020. Management has not yet determined the impact, if any, that implementation of ASU 2018-13 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 years ended June 30, 2018 and 2017 are as follows:

	<b>2018</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets—beginning of year	<u>\$ 170,128</u>	<u>\$ 333,359</u>	<u>\$ 706,230</u>	<u>\$ 1,209,717</u>
Investment return:				
Investment income	10,738	11,625	-	22,363
Net realized gains	26,872	49,108	-	75,980
Net unrealized gains	<u>7,838</u>	<u>9,859</u>	<u>-</u>	<u>17,697</u>
Total investment return	<u>45,448</u>	<u>70,592</u>	<u>-</u>	<u>116,040</u>
Contributions	-	-	3,740	3,740
Other	108	112	2,500	2,720
Appropriated for expenditures	(3,457)	-	-	(3,457)
Transfers to other funds	(54,778)	-	-	(54,778)
Net assets released from restrictions	<u>20,567</u>	<u>(20,567)</u>	<u>-</u>	<u>-</u>
Endowment net assets—end of year	<u>\$ 178,016</u>	<u>\$ 383,496</u>	<u>\$ 712,470</u>	<u>\$ 1,273,982</u>
	<b>2017</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
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>-</u>	<u>80,316</u>
Total investment return	<u>72,970</u>	<u>78,346</u>	<u>-</u>	<u>151,316</u>
Contributions	-	-	1,696	1,696
Other	396	407	-	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>	<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>

### 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 \$264,178 (15% of 2018 net assets) and \$247,286 (15% of 2017 net assets) as of June 30, 2018 and 2017, 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 \$417,247 and \$398,597 as of June 30, 2018 and 2017, respectively.

The Museum has made capital commitments of \$687,523 and \$612,523 for purchases of limited partnership interests, of which the total net amount funded was \$480,979 and \$435,768 as of June 30, 2018 and 2017, respectively. Subsequent to June 30, 2018, the Museum funded an additional \$19,165.

Subsequent to June 30, 2018, the Museum made no additional commitments to investment managers in other asset classes.

A summary of investments as of June 30, 2018 and 2017 is as follows:

	<b>2018</b>		
	<b>Cost</b>	<b>Market Value</b>	<b>Unrealized Appreciation</b>
At fair value:			
Equity and equity mutual funds	446,431	830,533	384,102
U.S. treasuries, bonds and bond mutual funds	48,067	50,763	2,696
Alternative investments	238,375	264,178	25,803
Real estate and REITS	15,590	20,236	4,646
Money market mutual funds	<u>95,435</u>	<u>95,436</u>	<u>-</u>
Total investments	<u>843,898</u>	<u>1,261,146</u>	<u>417,247</u>
		<b>2017</b>	
	<b>Cost</b>	<b>Market Value</b>	<b>Unrealized Appreciation</b>
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>



Investment income earned by the Museum and its allocation among net asset classifications for the years ended June 30, 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
Investment income	\$ 23,513	\$ 21,283
Net realized gains on investments reported at fair value	74,914	50,623
Net unrealized gains on investments reported at fair value	<u>18,650</u>	<u>80,011</u>
Total investment income	<u>\$117,077</u>	<u>\$151,917</u>
Net asset classification of investment income:		
Unrestricted	\$ 34,894	\$ 66,686
Temporarily restricted	<u>82,183</u>	<u>85,231</u>
Total investment income	<u>\$117,077</u>	<u>\$151,917</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, 2018 and 2017, the Museum valued, using Level 1 inputs, \$994,561 and \$950,438, 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, 2018 and 2017, the Museum had no investments valued using Level 2 inputs.

**Level 3**—Valuations based on inputs that are unobservable and not corroborated by market data. As of June 30, 2018 and 2017, using Level 3 inputs, the Museum valued \$2,110 and \$1,440, 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.

In April 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (Issue 14-B)*, which removes from the fair value hierarchy investments for which the practical expedient is used to measure fair value at 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. ASU No. 2015-07 is effective for the Museum on July 1, 2017; the Museum therefore adopted ASU No. 2015-07 on July 1, 2017 and retroactively adjusted the 2017 footnote disclosures accordingly.

The financial instruments carried in the statement of financial position by caption and by level within the valuation hierarchy as of June 30, 2018 and 2017 were as follows:

	<b>2018</b>				
	<b>Level 1</b>	<b>Level 3</b>	<b>Investments Measured At Fair Value</b>	<b>Investments Measured at NAV</b>	<b>Total</b>
Equity and equity mutual funds	\$ 828,423	\$ 2,110	\$ 830,533	\$ -	\$ 830,533
U.S. treasuries, bonds, and bond mutual funds	50,466	-	50,466	297	50,763
Alternative investments	-	-	-	264,178	264,178
Real estate and REITS	20,236	-	20,236	-	20,236
Money market mutual funds	<u>95,436</u>	<u>-</u>	<u>95,436</u>	<u>-</u>	<u>95,436</u>
Total	<u>\$ 994,561</u>	<u>\$ 2,110</u>	<u>\$ 996,671</u>	<u>\$ 264,475</u>	<u>\$ 1,261,146</u>
	<b>2017</b>				
	<b>Level 1</b>	<b>Level 3</b>	<b>Investments Measured At Fair Value</b>	<b>Investments Measured at NAV</b>	<b>Total</b>
Equity and equity mutual funds	\$ 788,380	\$ 1,440	\$ 789,820	\$ -	\$ 789,820
U.S. treasuries, bonds, and bond mutual funds	52,075	-	52,075	45,733	97,808
Alternative investments	-	-	-	247,286	247,286
Real estate and REITS	20,177	-	20,177	-	20,177
Money market mutual funds	<u>89,806</u>	<u>-</u>	<u>89,806</u>	<u>-</u>	<u>89,806</u>
Total	<u>\$ 950,438</u>	<u>\$ 1,440</u>	<u>\$ 951,878</u>	<u>\$ 293,019</u>	<u>\$ 1,244,897</u>

The following table includes a rollforward for the years ended June 30, 2018 and 2017, 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.

	<b>Level 3 Investments</b>	
	<b>2018</b>	<b>2017</b>
Balance—beginning of fiscal year	\$ 1,440	\$ 1,266
Purchases	-	-
Distributions	-	-
Net operating loss	-	-
Net realized gains	-	-
Net unrealized gains	<u>670</u>	<u>174</u>
Balance—end of fiscal year	<u>\$ 2,110</u>	<u>\$ 1,440</u>

#### 4. INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

A description of the securities measured at net asset value is as follows as of June 30, 2018 and 2017:

		<b>2018</b>			
	<b>Category</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Multi-Strategy hedge funds	(a)	\$ 3,201	\$ -	Quarterly–Annually	30–100 days
Private equity funds	(b)	105,602	65,621	N/A	N/A
Venture capital funds	(c)	13,974	595	N/A	N/A
Energy and natural resources funds	(d)	108,632	104,620	N/A	N/A
Distressed debt funds	(e)	52	-	N/A	N/A
Real estate funds	(f)	32,717	35,708	N/A	N/A
U.S. treasuries, bonds, and bond mutual funds	(g)	<u>297</u>	<u>-</u>	N/A	N/A
Total		<u>\$ 264,475</u>	<u>\$ 206,544</u>		

**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 and 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)	29,640	33,690	N/A	N/A
U.S. treasuries, bonds, and bond mutual funds (g)	<u>45,733</u>	<u>-</u>	N/A	N/A
<b>Total</b>	<b><u>\$ 293,019</u></b>	<b><u>\$ 176,755</u></b>		

- (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.
- (g) This category includes subordinated common stock which is subject to transfer restrictions. At June 30, 2017, the category also included investment grade corporate bonds.

The allocation of investments held by the Museum to the various endowments, operations, accessions, and plant accounts as of June 30, 2018 is as follows:

	<b>Cost</b>	<b>Market Value</b>
Operations endowment investment accounts:		
Museum:		
The Caroline Wiess Law Operating Endowment	\$ 352,281	\$ 390,559
Brown Foundation Maintenance Endowment	43,931	135,979
Alice Pratt Brown, "Brown Wing" Endowment	9,311	33,699
Alfred C. Glassell, Jr. Endowment Fund for The Museum of Fine Arts, Houston	15,616	23,487
The General and Mrs. Maurice Hirsch Library Endowment Permanent Endowment	10,971	23,117
Jesse H. and Mary Gibbs Jones Exhibition Endowment	4,771	20,677
Cornelia and Meredith Long Operating Endowment	3,486	9,611
Robert A. Welch—Works of Art Restoration Endowment	6,623	7,849
The Wortham Foundation Audrey Jones Beck Building Endowment	1,998	5,942
W. T. and Louise J. Moran Education Director Endowment	4,548	5,392
Gus and Lyndall Wortham Curatorial Chair Endowment	3,763	4,531
Jeanie Kilroy Wilson Endowment for Curator of American Painting & Sculpture	1,456	4,013
Audrey Jones Beck Capital Campaign Endowment	3,332	3,432
Cullinan Wing Endowment	3,287	3,091
The Caroline Wiess Law Education Endowment	778	3,048
The Carol Crow Photography Conservator Chair Endowment	1,687	2,537
Audrey Jones Beck European Art Curator Endowment	1,690	2,165
Latin American and Latino Art Curator Endowment	2,191	2,061
Fayez Shalaby Sarofim and Meredith J. Long Endowment Fund for Exhibitions	1,672	1,967
William Randolph Hearst Educational Outreach Endowment	1,114	1,299
The Isabel Brown Wilson Endowment for the Curator of Modern and Contemporary Art	621	1,154
Harry C. Wiess Memorial Endowment	1,078	1,076
Ting Tsung and Wei Fong Chao Endowment for the Curator of Asian Art	269	1,066
Peter C. Marzio Endowment for Craft	1,052	1,006
National Endowment for the Humanities—Education Endowment	1,044	986
The Fondren Foundation Education Endowment	682	926
B.M.C. Software, Inc. Education Endowment	572	684
The Wallace Foundation Education Endowment	563	654
John Blodgett Davis Endowment Fund	605	629
Shell Companies Exhibition Endowment	587	609
Neal Myers and Ken Black Children's Art Fund	130	359
National Endowment for the Arts—Planning and Stabilization	223	354
The Margaret Cooke Skidmore Endowed Exhibition Fund	340	346
Frank and Eleanor Freed Lecture Series Endowment	275	341
The Melza and Ted Barr Endowment for Conservation	158	286
The Cyvia and Melvyn Wolff Endowment for Exhibitions	251	251
The Virginia and Ira Jackson Lecture on Prints and Drawings Endowment	240	243
Cyvia and Melvyn Wolff Endowment for Bus Scholarships	206	229
Campaign for the MFAH Campus Operating Endowment	209	197
Houston Antiques Dealers Association Endowment	174	171
	130	168

(Continued)

	<b>Cost</b>	<b>Market Value</b>
Cyvia and Melvyn Wolff Endowment for Learning Through Art	\$ 157	\$ 148
Alice Pratt Brown Garden Endowment	58	129
Favrot Education Endowment Fund	110	113
Garden Endowment	26	72
Michael W. Dale Decorative Arts Exhibition Endowment	59	59
The John C. Wynne Memorial Lecture Series for Arts Education	43	46
Ralph S. O'Connor Statue Maintenance Endowment	35	40
Beth B. Schneider Endowed Summer Internship Fund	24	23
Neiman Marcus Youth Arts Education Endowment	21	21
Samuel F. Gorman Endowment Fund for Exhibitions	<u>1</u>	<u>1</u>
<b>Total Museum</b>	<b><u>484,449</u></b>	<b><u>696,843</u></b>
<b>Bayou Bend Collection and Gardens:</b>		
Bayou Bend Trust Endowment	4,691	14,972
Bayou Bend Endowments	4,179	10,791
David B. Warren Symposium Endowment	298	362
The Carol and Les Ballard Endowed Lecture Series	284	312
Underwood Bayou Bend Annual Gift Endowment	83	189
The Judy and Charles Tate Education Endowment	114	127
Bayou Bend 50th Anniversary Endowment	121	118
O.B. Dyer Endowment at Bayou Bend	56	56
The Twinkle Fund in support of operations for Bayou Bend Collection and Gardens	23	24
The Sparkle Fund in support of education programs for the docents at Bayou Bend Collection and Gardens	<u>6</u>	<u>6</u>
<b>Total Bayou Bend Collection and Gardens</b>	<b><u>9,855</u></b>	<b><u>26,957</u></b>
<b>Glassell School of Art:</b>		
Alfred C. Glassell, Jr. Endowment Fund	10,988	18,062
Glassell School Endowments	2,398	6,274
Glassell Scholarship Endowments	2,913	4,146
Laura Lee Blanton Endowment for the Core Program at the Glassell School of Art	1,021	1,003
Glassell School Special Endowment	<u>1</u>	<u>1</u>
<b>Total Glassell School of Art</b>	<b><u>17,321</u></b>	<b><u>29,486</u></b>
<b>Rienzi:</b>		
The Carroll Sterling and Harris Masterson III Endowment	7,231	13,871
The Caroline Wiess Law Endowment	6,326	11,166
Rienzi Garden Endowment Fund	<u>618</u>	<u>569</u>
<b>Total Rienzi</b>	<b><u>14,175</u></b>	<b><u>25,606</u></b>
<b>Total Operations Endowment Investment Accounts</b>	<b><u>525,800</u></b>	<b><u>778,892</u></b>
<b>Accessions Endowment Investment Accounts:</b>		
Caroline Wiess Law Accessions Endowment	225,949	252,891
Alfred C. Glassell, Jr. Endowment Fund for Accessions	36,895	60,535
Brown Foundation Accessions Endowment	16,818	54,205
Alice Pratt Brown Museum Endowment	13,571	50,116
Agnes Cullen Arnold Endowment	6,639	27,917

	<b>Cost</b>	<b>Market Value</b>
Director's Accessions Endowment	\$ 3,438	\$ 15,843
Audrey Jones Beck Accessions Endowment	9,931	12,233
Alvin S. Romansky Print Accessions Endowment	1,280	2,877
Long American Art Endowment	335	1,264
Shahla and Hushang Ansary Endowment	1,059	1,024
Lora Jean Kilroy Accessions Endowment	993	1,016
S. I. and Susie Morris Photography Endowment	419	992
The Cyvia and Melvyn Wolff Endowment for American Art	966	969
W. H. Keenan Family Endowment Fund	440	503
Rienzi Collections Endowment Fund	455	450
The Marjorie G. and Evan C. Horning Print Fund	139	406
Jack R. McGregor Endowment Fund for Glass	300	332
Myron Bonham Deily Endowment Fund for Latin American Art	278	280
Alice C. Simkins Drawing Endowment Fund	200	229
The Ann Gordon Trammell American Art Endowment Fund	199	221
Mundy Photography Department Endowment	175	181
Marian and Speros Martel Early Americana Accessions Endowment Fund Honoring William S. Kilroy	167	176
The Pamela and David Ott American Art Endowment	150	160
Elizabeth S. and Marjorie G. Horning Asian Art Accessions Endowment Fund	118	152
Michael K. Brown Metals Endowment Fund	135	149
The Ira and Virginia Jackson Endowment Fund	134	140
The Gloria Garic Anderson Endowment Fund For Accessions for Bayou Bend	120	137
Houston Junior Woman's Club Charitable Fund—An Endowment Fund for Bayou Bend Accessions	130	132
Bayou Bend Docent Organization Endowment Fund	120	132
Decorative Arts Accessions Endowment Fund	74	95
The Anne Wilkes Tucker Young Photographers Endowment	82	79
The Carol Jean and Michael Moehlman Bayou Bend Accessions Endowment Fund	58	67
The Alice C. Simkins Endowment for Southern Art for Bayou Bend	59	60
The Toni and Ralph Wallingford Accessions Endowment for Bayou Bend	56	54
The Stuart Endowment Fund	50	50
Lynn and Marcel Mason Photography Endowment Fund	49	49
Marjorie & Evan Horning Endowment for Decorative Arts	39	49
Duncan W. Corbett Endowment for Southwestern American Art Photography Endowment	31	31
Linda and Ronny Finger Endowment Fund	20	25
Linda and Ronny Finger Endowment Fund	17	22
Samuel F. Gorman Endowment Fund for Accessions	<u>1</u>	<u>1</u>
Total Accessions Endowment Investment Accounts	<u>322,089</u>	<u>486,244</u>
Total investments within operations, accessions, and plant accounts	<u>(3,990)</u>	<u>(3,990)</u>
Total investments	<u>\$ 843,899</u>	<u>\$ 1,261,146</u>

## 5. PLEDGES RECEIVABLE

As of June 30, 2018 and 2017, the Museum had unconditional pledges receivable of \$86,964 and \$108,796, respectively. Pledges receivable—net represents the present value of future cash flows, discounted at the average five-year Treasury bill rate (2.78% and 1.77% as of June 30, 2018 and 2017, respectively), and are as follows:

	<b>2018</b>	<b>2017</b>
Due within one year	\$ 41,670	\$ 38,584
Due within two to five years	30,560	52,609
Due after five years	<u>14,734</u>	<u>17,603</u>
Total	86,964	108,796
Less present value discount	(2,437)	(3,278)
Less allowance for uncollectible pledges	<u>(549)</u>	<u>(609)</u>
Pledges receivable—net	<u>\$ 83,978</u>	<u>\$104,909</u>

## 6. PROPERTY

Property as of June 30, 2018 and 2017 is as follows:

	<b>2018</b>	<b>2017</b>
Land	\$ 27,877	\$ 27,877
Construction in progress	82,600	73,259
Buildings and capital improvements	276,665	196,917
Equipment, furniture, and fixtures	<u>22,340</u>	<u>21,901</u>
Total	409,482	319,954
Less accumulated depreciation	<u>(110,826)</u>	<u>(102,468)</u>
Total	<u>\$ 298,656</u>	<u>\$217,486</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 up to 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 years ended June 30, 2018 and 2017, was \$907 and \$909, respectively, which is included as part of employee benefits expense. In January 2017, the Museum executed a deferred compensation agreement with the Director of the Museum. The deferral term of the agreement is January 2027, with ten 12-month deferral periods accruing on a straight-line



basis on each anniversary of the agreement. No deferred compensation was paid in 2018 and the deferred compensation liability as of June 30, 2018 totaled \$195.

## **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 \$28,179 and \$33,000 as of June 30, 2018 and 2017, respectively. Contribution revenue from members of the Museum's Board of Trustees for the years ended June 30, 2018 and 2017 are not material.

## **9. CAPITAL AND OPERATING LEASE COMMITMENTS**

The Museum financed the purchase of certain equipment through capital lease obligations with a principal amount of \$885 for the year ended June 30, 2018, compared to \$1,588 for the year ended June 30, 2017. 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 \$4,382, respectively, as of June, 30 2018 and \$4,382 and \$4,103, respectively, as of June 30, 2017. 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**

2019	\$ 584
2020	358
Less interest	<u>(57)</u>
Total capital lease obligation	<u>\$ 885</u>

The Museum has various noncancelable operating lease commitments as of June 30, 2018 payable as follows:

**Years Ending  
June 30**

2019	\$ 121
2020	<u>22</u>
Total lease commitments	<u>\$ 143</u>

Rental expense under these leases for the years ended June 30, 2018 and 2017 was \$131 and \$128, respectively.

**10. NET ASSETS**

Temporarily and permanently restricted net assets as of June 30, 2018 and 2017 were restricted for the following uses:

	<u>2018</u>		<u>2017</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Operations and operations endowment	\$ 183,772	\$ 442,133	\$ 156,932	\$ 437,058
Accessions and accessions endowment	228,894	270,337	198,551	269,172
Plant	<u>115,867</u>	<u>-</u>	<u>177,570</u>	<u>-</u>
Total	<u>\$ 528,533</u>	<u>\$ 712,470</u>	<u>\$ 533,053</u>	<u>\$ 706,230</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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