

The Museum of Fine Arts, Houston

Financial Statements as of and for the Years Ended
June 30, 2019 and 2018, 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, 2019, 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, 2019, its functional expenses, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on July 1, 2018, the Museum adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Museum's 2018 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 7, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Deloitte & Touche LLP

November 13, 2019

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2019 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018)

(Dollars in thousands)

	2019	2018
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 21,923	\$ 22,361
Temporarily restricted cash and cash equivalents	68,911	73,877
Total cash and cash equivalents	<u>90,834</u>	<u>96,238</u>
RECEIVABLES:		
Pledges—Net	72,398	83,978
Grants	1,153	427
Accounts	502	6,296
Interest/dividends	1,517	1,558
Total receivables	<u>75,570</u>	<u>92,259</u>
INVENTORY	<u>705</u>	<u>809</u>
PREPAID EXPENSES	<u>1,017</u>	<u>627</u>
INVESTMENTS	<u>1,300,210</u>	<u>1,261,146</u>
PROPERTY—Net	<u>376,439</u>	<u>298,656</u>
OTHER ASSETS	<u>1,256</u>	<u>1,289</u>
TOTAL	<u>\$ 1,846,031</u>	<u>\$ 1,751,024</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 36,660	\$ 27,827
Deferred revenue	16,223	16,417
Total liabilities	<u>52,883</u>	<u>44,244</u>
COMMITMENTS (Note 4, 7, 10)		
NET ASSETS:		
Without donor restriction	533,697	465,777
With donor restriction	<u>1,259,451</u>	<u>1,241,003</u>
Total net assets	<u>1,793,148</u>	<u>1,706,780</u>
TOTAL	<u>\$ 1,846,031</u>	<u>\$ 1,751,024</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)
(Dollars in thousands)

	Without Donor Restriction	With Donor Restriction	2019 Total	2018 Total
OPERATING REVENUES:				
Contributions and grants	\$ 11,887	\$ 3,083	\$ 14,970	\$ 15,780
Investment returns, net, appropriated for current use	37,462	458	37,920	35,528
Membership revenue	3,412	-	3,412	3,355
Admission revenue	6,366	-	6,366	4,661
Tuition revenue	2,370	-	2,370	1,986
Auxiliary revenue	5,306	-	5,306	3,419
Other	4,298	-	4,298	2,261
Net assets released from restriction	3,488	(3,488)	-	-
Total operating support and revenue	<u>74,589</u>	<u>53</u>	<u>74,642</u>	<u>66,990</u>
OPERATING EXPENSES:				
Program services:				
Curatorial and collections	9,426	-	9,426	9,036
Exhibitions	4,935	-	4,935	6,699
Education and public programs	9,001	-	9,001	8,399
Glassell School	5,360	-	5,360	4,171
Bayou Bend	4,430	-	4,430	4,256
Rienzi	1,330	-	1,330	1,381
Membership activities	1,432	-	1,432	1,303
Buildings and grounds and security	<u>13,742</u>	<u>-</u>	<u>13,742</u>	<u>12,702</u>
Subtotal program services	<u>49,656</u>	<u>-</u>	<u>49,656</u>	<u>47,947</u>
Supporting services:				
Management and general	8,048	-	8,048	6,604
Auxiliary activities	4,548	-	4,548	3,303
Fundraising	<u>5,256</u>	<u>-</u>	<u>5,256</u>	<u>5,432</u>
Subtotal supporting services	<u>17,852</u>	<u>-</u>	<u>17,852</u>	<u>15,339</u>
Total operating expenses before depreciation and amortization	<u>67,508</u>	<u>-</u>	<u>67,508</u>	<u>63,286</u>
OPERATING SURPLUS BEFORE DEPRECIATION AND AMORTIZATION				
DEPRECIATION AND AMORTIZATION	7,081	53	7,134	3,704
DEPRECIATION AND AMORTIZATION	<u>10,917</u>	<u>-</u>	<u>10,917</u>	<u>8,358</u>
CHANGES IN NET ASSETS FROM OPERATIONS	(3,836)	53	(3,783)	(4,654)
NON-OPERATING ACTIVITIES:				
Contributions designated for capital expenditures and long term investment	750	42,967	43,717	28,329
Contributions for the purchase of art	6,081	637	6,718	7,556
Investment returns, net, appropriated for art acquisition	2,888	18,824	21,712	20,504
Acquisition of art objects net of proceeds from the sale of art	(15,757)	-	(15,757)	(20,446)
Investment returns, net, in excess of amounts appropriated for current use and art acquisition	(30,409)	62,000	31,591	58,016
Net assets released from restriction to fund non-operating activities	106,033	(106,033)	-	-
Other—Insurance	<u>2,170</u>	<u>-</u>	<u>2,170</u>	<u>5,446</u>
CHANGE IN NET ASSETS	67,920	18,448	86,368	94,751
NET ASSETS—Beginning of year	<u>465,777</u>	<u>1,241,003</u>	<u>1,706,780</u>	<u>1,612,029</u>
NET ASSETS—End of year	<u>\$ 533,697</u>	<u>\$ 1,259,451</u>	<u>\$ 1,793,148</u>	<u>\$ 1,706,780</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2018) (Dollars in thousands)

Area	Program Services									Supporting Services				Total Expenses before Depreciation for the Year Ended June 30, 2019	Total Expenses before Depreciation for the Year Ended June 30, 2018
	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	\$ 5,546	\$ 317	\$ 4,790	\$ 2,559	\$ 1,957	\$ 469	\$ 377	\$ 7,574	\$ 23,589	\$ 4,311	\$ 1,426	\$ 2,187	\$ 7,924	\$ 31,513	\$ 29,244
EMPLOYEE BENEFITS	976	56	721	368	173	46	63	1,285	3,688	1,000	197	355	1,552	5,240	4,127
PAYROLL TAXES	<u>401</u>	<u>22</u>	<u>346</u>	<u>145</u>	<u>72</u>	<u>19</u>	<u>27</u>	<u>682</u>	<u>1,714</u>	<u>193</u>	<u>103</u>	<u>139</u>	<u>435</u>	<u>2,149</u>	<u>2,083</u>
Total	6,923	395	5,857	3,072	2,202	534	467	9,541	28,991	5,504	1,726	2,681	9,911	38,902	35,454
CONTRACT SERVICES	179	57	270	706	564	227	51	587	2,641	707	294	676	1,677	4,318	3,383
PROGRAMS AND PREVIEWS	76	2,374	73	216	471	85	1	-	3,296	40	4	-	44	3,340	2,699
OCCUPANCY	153	68	244	311	248	99	20	1,691	2,834	(325)	176	71	(78)	2,756	3,238
PROFESSIONAL FEES	657	11	491	283	104	12	54	43	1,655	660	235	119	1,014	2,669	3,217
POSTAGE AND SHIPPING	277	1,818	38	50	16	4	84	-	2,287	61	129	57	247	2,534	3,802
PROMOTION	14	2	824	48	64	13	523	-	1,488	34	22	185	241	1,729	1,956
COST OF GOODS SOLD	-	-	-	-	48	-	-	-	48	-	1,677	-	1,677	1,725	1,079
REPAIRS AND MAINTENANCE	17	23	7	89	307	138	1	993	1,575	73	41	-	114	1,689	1,304
INSURANCE	425	5	-	234	65	17	-	695	1,441	193	6	5	204	1,645	1,422
TRAVEL	290	119	90	61	19	26	2	3	610	155	16	824	995	1,605	1,346
MISCELLANEOUS	254	57	362	(3)	139	130	23	(67)	895	732	106	175	1,013	1,908	1,963
SUPPLIES	136	1	102	207	113	26	1	239	825	70	108	218	396	1,221	1,010
PRINTING AND PUBLICATIONS	4	2	345	79	46	18	203	-	697	16	3	198	217	914	801
DUES AND SUBSCRIPTIONS	11	-	79	4	11	-	1	9	115	123	2	44	169	284	281
LIBRARY	4	-	214	-	10	-	-	-	228	-	-	-	-	228	253
INTEREST AND TAXES	<u>6</u>	<u>3</u>	<u>5</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>8</u>	<u>30</u>	<u>5</u>	<u>3</u>	<u>3</u>	<u>11</u>	<u>41</u>	<u>78</u>
TOTAL	<u>\$9,426</u>	<u>\$4,935</u>	<u>\$9,001</u>	<u>\$5,360</u>	<u>\$4,430</u>	<u>\$1,330</u>	<u>\$1,432</u>	<u>\$13,742</u>	<u>\$49,656</u>	<u>\$ 8,048</u>	<u>\$4,548</u>	<u>\$5,256</u>	<u>\$17,852</u>	<u>\$67,508</u>	<u>\$63,286</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018 (Dollars in thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 86,368	\$ 94,751
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,917	8,358
Gains on sale of investments	(81,597)	(74,914)
Net unrealized depreciation (appreciation) on investments	14,391	(18,650)
Distributions from investing activities	26,056	29,224
Contributions restricted by donors	(46,687)	(31,350)
Change in receivables	16,689	23,074
Change in inventory	104	(212)
Change in prepaid expenses	(390)	873
Change in liabilities	<u>(9,342)</u>	<u>(7,714)</u>
Net cash provided by operating activities	<u>16,509</u>	<u>23,440</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(70,718)	(87,177)
Return of capital on investments	23,630	34,822
Purchases of investments	(123,103)	(134,500)
Proceeds from sale of investments	101,558	147,769
Decrease in other assets	<u>33</u>	<u>56</u>
Net cash used in investing activities	<u>(68,600)</u>	<u>(39,030)</u>
CASH FLOWS FROM FINANCING ACTIVITY—Contributions restricted by donors	<u>46,687</u>	<u>31,350</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,404)	15,760
CASH AND CASH EQUIVALENTS—Beginning of year	<u>96,238</u>	<u>80,478</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 90,834</u>	<u>\$ 96,238</u>
NONCASH ACTIVITIES:		
Property purchases totaling \$17,981 and \$2,351 are included in accounts payable as of June 30, 2019 and 2018, 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, 2019 AND 2018 (Dollars in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The financial statements of The Museum of Fine Arts, Houston (the “Museum”) have been prepared on the accrual basis of accounting.

On July 1, 2018, the Museum adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting. The standard requires the Museum to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions, among other requirements.

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.

Resources Without Donor Restrictions—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”).

Resources With Donor Restrictions—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, or that are subject to donor-imposed stipulations that they be maintained in perpetuity by the Museum. Generally, the donors of these assets permit the Museum to use all or part of the income earned on these assets.

Measure of Operations—The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities include art exhibitions, classroom and hands-on art education, conservation, curatorial and membership activities, auxiliary functions, facilities management, and security. Nonoperating activities are comprised of the acquisition of works of art, capital asset activity, investment returns in excess of those appropriated for current spending, and other activities considered to be unusual or nonrecurring.

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 (NAV) 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 in the endowment accounts held in perpetuity, net of realized investment gains on those investment transactions, and appreciation/depreciation in market value of those investments, is allocated among the 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 donor 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 recognized 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 two 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.

Art Collection—With approximately 70,820 works at June 30, 2019, 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 \$11,303 and \$16,510 for the years ended June 30, 2019 and 2018, respectively. The value of art objects obtained by gifts is reported as contributions and collection expense in the statements of activities and totaled \$4,142 and \$3,936 for the years ended June 30, 2019 and 2018, respectively. Deaccessions made during the years 2019 and 2018 had a fair market value of \$45 and \$1, 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 donor restricted revenue until acquisitions are made in accordance with the terms of the gifts. Net assets are transferred from net assets with donor restrictions to net assets without donor restrictions upon satisfaction of those 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 with or without donor restrictions.

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, 2019 and 2018, the Museum received donated legal services valued at \$162 and \$30, respectively.

Allocation of Functional Expenses—Expenses are charged to various programs and supporting services based on the ultimate use of the product or services. Information technology costs and salaries of Buildings & Grounds, Gardens, Security and Housekeeping departments are allocated to other functions based on time and effort incurred.

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 contributions are realized, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 revenue without donor restrictions.

Subsequent Events—We have evaluated subsequent events through November 13, 2019, which is the date the financial statements were available for issuance.

New Accounting Pronouncements—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. The Museum adopted ASU 2016-15 beginning July 1, 2018. Implementation of ASU 2016-15 had no significant impact 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. Management adopted ASU 2016-18 beginning July 1, 2018. Management has adjusted the presentation of these financial statements accordingly, and has applied the provisions of this ASU retrospectively to all periods presented.

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 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. LIQUIDITY

Financial assets available for general expenditure within one year of the balance sheet date of June 30, 2019 are as follows:

Financial assets		
Cash and cash equivalents	\$	21,923
Temporarily restricted cash and cash equivalents		68,911
Receivables:		
Pledges		72,398
Grants		1,153
Accounts		502
Interest		1,517
Investments		<u>1,300,210</u>
Total financial assets		1,466,614
Less: Assets not available for expenditure		
Assets with donor restrictions		
Temporarily restricted cash and cash equivalents	(68,911)	
Pledges receivable (less annual fund receivables)	(72,119)	
Interest receivable	(1,517)	
Investments	(1,300,210)	
Approved distributions for next fiscal year	59,805	
Board designated reserve fund	<u>(11,126)</u>	
Total assets not available for expenditure		<u>(1,394,078)</u>
Financial assets available to meet general expenditures over the next 12 months	\$	<u>72,536</u>

Income from donor restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure, except as approved during the annual budget process. The Museum does not intend to spend from its board designated reserve

fund; however, amounts from the board designated reserve fund could be made available if necessary.

3. 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 net assets held in perpetuity (1) the original value of gifts donated to the 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 donor 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 donor restricted in perpetuity represents only those amounts required to be retained in perpetuity 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 with donor restrictions is reduced by losses on the investments of the fund, including losses related to specific investments that the donor requires the Museum to hold in perpetuity.

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, 2019 and 2018 are as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets—beginning of year	\$ 178,016	\$ 1,095,966	\$ 1,273,982
Investment return:			
Investment income	11,991	13,066	25,057
Net realized gains	27,668	53,929	81,597
Net unrealized losses	<u>(7,943)</u>	<u>(6,448)</u>	<u>(14,391)</u>
Total investment return	<u>31,716</u>	<u>60,547</u>	<u>92,263</u>
Contributions	-	11,662	11,662
Other	129	135	264
Appropriated for expenditures	(3,254)	-	(3,254)
Transfers to other funds	(58,031)	-	(58,031)
Net assets released from restrictions	<u>21,563</u>	<u>(21,563)</u>	<u>-</u>
Endowment net assets—end of year	<u>\$ 170,139</u>	<u>\$ 1,146,747</u>	<u>\$ 1,316,886</u>
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets—beginning of year	\$ 170,128	\$ 1,039,589	\$ 1,209,717
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>17,697</u>
Total investment return	<u>45,448</u>	<u>70,592</u>	<u>116,040</u>
Contributions	-	3,740	3,740
Other	108	2,612	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>
Endowment net assets—end of year	<u>\$ 178,016</u>	<u>\$ 1,095,966</u>	<u>\$ 1,273,982</u>

4. 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 \$274,542 (15% of 2019 net assets) and \$264,178 (15% of 2018 net assets) as of June 30, 2019 and 2018, 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 \$402,856 and \$417,247 as of June 30, 2019 and 2018, respectively.

The Museum has made capital commitments of \$717,201 and \$687,523 for purchases of limited partnership interests, of which the total net amount funded was \$530,245 and \$480,979 as of June 30, 2019 and 2018, respectively. Subsequent to June 30, 2019, the Museum funded an additional \$8,861, and made one additional commitment to investment managers in other asset classes.

A summary of investments as of June 30, 2019 and 2018 is as follows:

	2019		
	Cost	Fair Value	Unrealized Appreciation
At fair value:			
Equity and equity mutual funds	\$ 449,227	\$ 831,660	\$ 382,433
U.S. treasuries, bonds and bond mutual funds	70,005	75,402	5,397
Alternative investments	265,333	274,542	9,209
Real estate and REITS	15,295	21,112	5,817
Money market mutual funds	<u>97,494</u>	<u>97,494</u>	<u>-</u>
Total investments	<u>\$ 897,354</u>	<u>\$ 1,300,210</u>	<u>\$ 402,856</u>
		2018	
	Cost	Fair Value	Unrealized Appreciation
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>

Investment income earned by the Museum and its allocation among net asset classifications for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Investment income	\$ 26,776	\$ 23,513
Direct investment expense	(2,759)	(3,029)
Net realized gains on investments reported at fair value	81,597	74,914
Net unrealized gains (losses) on investments reported at fair value	<u>(14,391)</u>	<u>18,650</u>
Total investment income	<u>\$ 91,223</u>	<u>\$ 114,048</u>
Net asset classification of investment income:		
Without donor restriction	\$ 9,941	\$ 31,753
With donor restriction	<u>81,282</u>	<u>82,295</u>
Total investment income	<u>\$ 91,223</u>	<u>\$ 114,048</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, 2019 and 2018, the Museum valued, using Level 1 inputs, \$1,008,227 and \$994,561, 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, 2019 and 2018, 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, 2019 and 2018, using Level 3 inputs, the Museum valued \$0 and \$2,110, 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.

Alternative investments and certain mutual funds that do not have readily determinable fair value are measured at fair value using NAV per share as a practical expedient and therefore have not been categorized as investments within the fair value hierarchy.

The financial instruments carried in the statement of financial position by caption and by level within the valuation hierarchy as of June 30, 2019 and 2018 were as follows:

	2019				
	Level 1	Total Investments Measured At Fair Value	Investments Measured at NAV	Total	
Equity and equity mutual funds	\$ 831,660	\$ 831,660	\$ -	\$ 831,660	
U.S. treasuries, bonds, and bond mutual funds	57,961	57,961	17,441	75,402	
Alternative investments	-	-	274,542	274,542	
Real estate and REITS	21,112	21,112	-	21,112	
Money market mutual funds	<u>97,494</u>	<u>97,494</u>	<u>-</u>	<u>97,494</u>	
Total	<u>\$ 1,008,227</u>	<u>\$ 1,008,227</u>	<u>\$ 291,983</u>	<u>\$ 1,300,210</u>	
	2018				
	Level 1	Level 3	Total Investments Measured At Fair Value	Investments Measured at NAV	Total
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>

The following table includes a rollforward for the years ended June 30, 2019 and 2018, 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	
	2019	2018
Balance—beginning of fiscal year	\$ 2,110	\$ 1,440
Purchases	-	-
Distributions	-	-
Net operating loss	-	-
Net realized losses	(2,110)	-
Net unrealized gains	-	670
	<u> </u>	<u> </u>
Balance—end of fiscal year	<u>\$ -</u>	<u>\$ 2,110</u>

A description of the securities measured at Net Asset Value is as follows as of June 30, 2019 and 2018:

		2019			
	Category	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy hedge funds	(a)	\$ 2,120	\$ -	Quarterly–Annually	30–100 days
Private equity funds	(b)	103,594	66,531	N/A	N/A
Venture capital funds	(c)	12,568	490	N/A	N/A
Energy and natural resources funds	(d)	115,843	75,804	N/A	N/A
Distressed debt funds	(e)	3	-	N/A	N/A
Real estate funds	(f)	40,413	44,131	N/A	N/A
U.S. treasuries, bonds, and bond mutual funds		<u>17,442</u>	<u>-</u>	N/A	N/A
Total		<u>\$ 291,983</u>	<u>\$ 186,956</u>		

2018				
Category	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
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>		

(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) In 2018, this category includes subordinated common stock which is subject to transfer restrictions.

The allocation of investments held by the Museum to the various endowments, operations, accessions, and plant accounts as of June 30, 2019 is as follows:

	Cost	Fair Value
Operations endowment investment accounts:		
Museum:		
The Caroline Wiess Law Operating Endowment	\$ 366,907	\$ 397,398
Brown Foundation Maintenance Endowment	49,020	138,360
Alice Pratt Brown, "Brown Wing" Endowment	10,572	34,289
Alfred C. Glassell, Jr. Endowment Fund for The Museum of Fine Arts, Houston	16,015	26,126
The General and Mrs. Maurice Hirsch Library Endowment	12,213	23,903
Permanent Endowment	5,545	21,040
Jesse H. and Mary Gibbs Jones Exhibition Endowment	3,845	9,779
Cornelia and Meredith Long Operating Endowment	6,917	7,986
Robert A. Welch—Works of Art Restoration Endowment	2,221	6,046
The Wortham Foundation Audrey Jones Beck Building Endowment	4,750	5,487
W. T. and Louise J. Moran Education Director Endowment	3,933	4,611
Gus and Lyndall Wortham Curatorial Chair Endowment	1,606	4,084
Jeanie Kilroy Wilson Endowment for the Curator of American Painting & Sculpture	3,608	3,623
Audrey Jones Beck Capital Campaign Endowment	3,402	3,145
Cullinan Wing Endowment	892	3,102
The Caroline Wiess Law Education Endowment	1,782	2,581
The Carol Crow Photography Conservator Chair Endowment	1,771	2,202
The Isabel Brown Wilson Endowment for the Curator of Modern and Contemporary Art	2,195	2,193
Audrey Jones Beck European Art Curator Endowment	2,269	2,097
Ting Tsung and Wei Fong Chao Endowment for the Curator of Asian Art	2,187	2,063
Latin American and Latino Art Curator Endowment	1,745	2,002
Fayez Shalaby Sarofim and Meredith J. Long Endowment Fund for Exhibitions	1,162	1,322
William Randolph Hearst Educational Outreach Endowment	664	1,175
Sara and Bill Morgan Endowment for the Curator of Decorative Arts, Craft, and Design	1,053	1,098
Harry C. Wiess Memorial Endowment	309	1,085
Peter C. Marzio Endowment for Craft	1,125	1,004
National Endowment for the Humanities—Education Endowment	717	942
Cyvia and Melvyn Wolff Endowment for Learning Through Art	847	798
The Fondren Foundation Education Endowment	598	696
B.M.C. Software, Inc. Education Endowment	587	665
The Wallace Foundation Education Endowment	629	640
John Blodgett Davis Endowment Fund	610	620
Shell Companies Exhibition Endowment	143	365
Neal Myers and Ken Black Children's Art Fund	237	361
National Endowment for the Arts—Planning and Stabilization	353	352
The Margaret Cooke Skidmore Endowed Exhibition Fund	288	347
Frank and Eleanor Freed Lecture Series Endowment	168	291
The Melza and Ted Barr Endowment for Conservation	273	255
The Cyvia and Melvyn Wolff Endowment for Exhibitions	249	247
The Virginia and Ira Jackson Lecture on Prints and Drawings Endowment	214	233
Cyvia and Melvyn Wolff Endowment for Bus Scholarships	225	201
Campaign for the MFAH Campus Operating Endowment	186	174
Houston Antiques Dealers Association Endowment	136	171

(Continued)

	Cost	Fair Value
Alice Pratt Brown Garden Endowment	\$ 63	\$ 131
Favrot Education Endowment Fund	115	115
Garden Endowment	29	74
Michael W. Dale Decorative Arts Exhibition Endowment	72	71
CFP Foundation Endowment for Education	53	52
The John C. Wynne Memorial Lecture Series for Arts Education	46	47
Ralph S. O'Connor Statue Maintenance Endowment	36	41
Beth B. Schneider Endowed Summer Internship Fund	25	23
Neiman Marcus Youth Arts Education Endowment	33	32
Samuel F. Gorman Endowment Fund for Exhibitions	<u>1</u>	<u>1</u>
Total Museum	<u>514,641</u>	<u>715,746</u>
Bayou Bend Collection and Gardens:		
Bayou Bend Trust Endowment	5,251	15,235
Bayou Bend Endowments	4,727	11,124
David B. Warren Symposium Endowment	311	368
The Carol and Les Ballard Endowed Lecture Series	295	318
Underwood Bayou Bend Annual Gift Endowment	90	192
The Judy and Charles Tate Education Endowment	119	129
Bayou Bend 50th Anniversary Endowment	126	120
O.B. Dyer Endowment at Bayou Bend	58	57
The Twinkle Fund in support of operations for Bayou Bend Collection and Gardens	24	24
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>11,007</u>	<u>27,573</u>
Glassell School of Art:		
Alfred C. Glassell, Jr. Endowment Fund	11,264	19,889
Glassell School Endowments	2,633	6,384
Glassell Scholarship Endowments	3,614	4,734
Laura Lee Blanton Endowment for the Core Program at the Glassell School of Art	1,197	1,145
Glassell School Special Endowment	<u>1</u>	<u>1</u>
Total Glassell School of Art	<u>18,709</u>	<u>32,153</u>
Rienzi:		
The Carroll Sterling and Harris Masterson III Endowment	7,973	14,322
The Caroline Wiess Law Endowment	6,744	11,361
Rienzi Garden Endowment Fund	694	631
Nancy Pollok Guinee Endowment for Rienzi Operations	<u>52</u>	<u>53</u>
Total Rienzi	<u>15,463</u>	<u>26,367</u>
Total Operations Endowment Investment Accounts	<u>559,820</u>	<u>801,839</u>
Accessions Endowment Investment Accounts:		
Caroline Wiess Law Accessions Endowment	235,418	257,320
Alfred C. Glassell, Jr. Endowment Fund for Accessions	37,822	66,670
Brown Foundation Accessions Endowment	18,847	55,155
Alice Pratt Brown Museum Endowment	15,447	50,994

(Continued)

	Cost	Fair Value
Agnes Cullen Arnold Endowment	\$ 7,684	\$ 28,406
Director's Accessions Endowment	4,030	16,120
Audrey Jones Beck Accessions Endowment	10,389	12,448
Alvin S. Romansky Print Accessions Endowment	1,388	2,928
Long American Art Endowment	382	1,287
Shahla and Hushang Ansary Endowment	1,135	1,041
Lora Jean Kilroy Accessions Endowment	1,035	1,034
S. I. and Susie Morris Photography Endowment	456	1,010
The Cyvia and Melvyn Wolff Endowment for American Art	1,002	987
W. H. Keenan Family Endowment Fund	459	512
Rienzi Collections Endowment Fund	472	457
The Marjorie G. and Evan C. Horning Print Fund	155	415
Jack R. McGregor Endowment Fund for Glass	312	338
The Myron B. and Linnet F. Deily Endowment for Latin American Art	288	285
Alice C. Simkins Drawing Endowment Fund	208	233
The Ann Gordon Trammell American Art Endowment Fund	208	225
Mundy Photography Department Endowment	190	193
Marian and Speros Martel Early Americana Accessions Endowment Fund Honoring William S. Kilroy	174	179
The Pamela and David Ott American Art Endowment	166	174
Elizabeth S. and Marjorie G. Horning Asian Art Accessions Endowment Fund	124	155
Michael K. Brown Metals Endowment Fund	141	152
Bayou Bend Dozent Organization Endowment Fund	142	151
The Ira and Virginia Jackson Endowment Fund	139	142
The Gloria Garic Anderson Endowment Fund For Accessions for Bayou Bend	125	139
Houston Junior Woman's Club Charitable Fund—An Endowment Fund for Bayou Bend Accessions	135	134
The Stuart Endowment Fund	108	101
Decorative Arts Accessions Endowment Fund	78	96
The Anne Tucker and Clint Willour Young Photographers Endowment	102	97
The Carol Jean and Michael Moehlman Bayou Bend Accessions Endowment Fund	61	68
The Alice C. Simkins Endowment for Southern Art for Bayou Bend	61	61
The Toni and Ralph Wallingford Accessions Endowment for Bayou Bend	58	55
Lynn and Marcel Mason Photography Endowment Fund	53	53
Marjorie & Evan Horning Endowment for Decorative Arts	41	49
Duncan W. Corbett Endowment for Southwestern American Art	32	32
Anne Wilkes Tucker Endowment	23	26
Linda and Ronny Finger Endowment Fund	18	23
Richard J. Meisinger, Jr. Accession Endowment in honor of Anne Wilkes Tucker	10	10
Samuel F. Gorman Endowment Fund for Accessions	<u>1</u>	<u>1</u>
Total Accessions Endowment Investment Accounts	<u>339,119</u>	<u>499,956</u>
Total investments within operations, accessions, and plant accounts	<u>(1,585)</u>	<u>(1,585)</u>
Total investments	<u>\$897,354</u>	<u>\$1,300,210</u>

(Concluded)

An endowment is considered to be underwater if the fair value of the endowment fund is less than the original endowment gift amount. The total amount of underwater endowments is immaterial to the financial statements at June 30, 2019 and 2018.

5. PLEDGES RECEIVABLE

As of June 30, 2019 and 2018, the Museum had unconditional pledges receivable of \$76,842 and \$86,964, respectively. Pledges receivable—net represents the present value of future cash flows, discounted at the average five-year Treasury bill rate (1.83% and 2.78% as of June 30, 2019 and 2018, respectively), and are as follows:

	2019	2018
Due within one year	\$ 28,452	\$ 41,670
Due within two to five years	34,210	30,560
Due after five years	<u>14,180</u>	<u>14,734</u>
Total	76,842	86,964
Less present value discount	(3,225)	(2,437)
Less allowance for uncollectible pledges	<u>(1,219)</u>	<u>(549)</u>
Pledges receivable—net	<u>\$ 72,398</u>	<u>\$ 83,978</u>

6. PROPERTY

Property as of June 30, 2019 and 2018 is as follows:

	2019	2018
Land	\$ 27,877	\$ 27,877
Construction in progress	145,683	82,600
Buildings and capital improvements	300,325	276,665
Equipment, furniture, and fixtures	<u>24,297</u>	<u>22,340</u>
Total	498,182	409,482
Less accumulated depreciation	<u>(121,743)</u>	<u>(110,826)</u>
Total	<u>\$ 376,439</u>	<u>\$ 298,656</u>

7. LINE OF CREDIT

During the year ended June 30, 2019, the Museum entered into a \$50 million line of credit agreement with a bank to be used for anticipated cash flow needs of the campus construction project. The agreement expires March 5, 2023. At June 30, 2019, there was \$0 outstanding on this line. Interest on outstanding amounts accrues at LIBOR plus 0.35%; no interest was accrued or paid during the year ended June 30, 2019.

8. 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, 2019 and 2018, was \$963 and \$907, respectively, which is included as part of employee benefits expense. The Museum maintains a deferred compensation agreement with the Director of the Museum. The deferral term of the agreement is through 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 2019 or 2018. The deferred compensation liability as of June 30, 2019 and 2018 totaled \$334 and \$195, respectively.

9. RELATED-PARTY TRANSACTIONS

The Museum bylaws incorporate a conflict of interest policy. The purpose of this policy 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 \$33,378 and \$28,179 as of June 30, 2019 and 2018, respectively. Contribution revenue from members of the Museum's Board of Trustees total \$14,508 for the year ended June 30, 2019. Contribution revenue from members of the Museum's Board of Trustees for the year ended June 30, 2018 is not material to the financial statement taken as a whole.

10. CAPITAL AND OPERATING LEASE COMMITMENTS

The Museum financed the purchase of certain equipment through capital lease obligations with a principal amount of \$343 for the year ended June 30, 2019, compared to \$885 for the year ended June 30, 2018. 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. Net book value of such equipment is \$0 at June 30, 2019 and 2018 as the cost and accumulated amortization of such equipment totaled \$4,382 and \$4,382, respectively, at June 30, 2019 and 2018. 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

2020	\$ 358
Less interest	<u>(15)</u>
Total capital lease obligation	<u>\$ 343</u>

The Museum has various noncancelable operating lease commitments as of June 30, 2019 payable as follows:

Years Ending June 30

2020	\$ 40
2021	16
2022	<u>16</u>
Total lease commitments	<u>\$ 72</u>

Rental expense under these leases for the years ended June 30, 2019 and 2018 was \$132 and \$131, respectively.

11.NET ASSETS

Net assets with donor restrictions as of June 30, 2019 and 2018 were restricted for the following uses:

	2019		
	Restricted for Time and Purpose	Restricted In Perpetuity	Total
Operations and operations endowment	\$ 210,003	\$ 453,689	\$ 663,692
Accessions and accessions endowment	255,924	270,443	526,367
Plant	<u>69,392</u>	<u>-</u>	<u>69,392</u>
Total	<u>\$ 535,319</u>	<u>\$ 724,132</u>	<u>\$ 1,259,451</u>

	2018		
	Restricted for Time and Purpose	Restricted In Perpetuity	Total
Operations and operations endowment	\$ 183,772	\$ 442,133	\$ 625,905
Accessions and accessions endowment	228,894	270,337	499,231
Plant	<u>115,867</u>	<u>-</u>	<u>115,867</u>
Total	<u>\$ 528,533</u>	<u>\$ 712,470</u>	<u>\$ 1,241,003</u>

Included in operations and accession endowments are 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 operating and art accession activities of the Museum, including activities of Bayou Bend Collection and Gardens, Glassell School of Art, and Rienzi. Included in plant accounts are pledges and contributions received that are temporarily restricted to be used by the Museum for various capital activities.

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