

The Museum of Fine Arts, Houston

Financial Statements as of and for the
Years Ended June 30, 2015 and 2014, 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, 2015, 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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Museum's 2014 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 21, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Deloitte & Touche LLP

November 18, 2015

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2015 AND 2014 (Dollars in thousands)

	2015	2014
ASSETS		
TEMPORARILY RESTRICTED CASH AND CASH EQUIVALENTS	\$ 70,912	\$ 69,465
RECEIVABLES:		
Pledges	153,191	112,683
Grants	414	511
Accounts	12,562	1,344
Interest/dividends	1,780	1,589
Total receivables	<u>167,947</u>	<u>116,127</u>
INVENTORY	<u>261</u>	<u>720</u>
PREPAID EXPENSES	<u>361</u>	<u>1,528</u>
INVESTMENTS	<u>1,201,214</u>	<u>1,207,696</u>
PROPERTY—Net	<u>133,367</u>	<u>124,069</u>
OTHER ASSETS	<u>1,382</u>	<u>1,404</u>
TOTAL	<u>\$ 1,575,444</u>	<u>\$ 1,521,009</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 30,843	\$ 20,320
Deferred revenue	17,388	3,861
Total liabilities	<u>48,231</u>	<u>24,181</u>
COMMITMENTS (Note 3, 9)		
NET ASSETS:		
Unrestricted	267,971	301,687
Temporarily restricted	562,531	509,415
Permanently restricted	<u>696,711</u>	<u>685,726</u>
Total net assets	<u>1,527,213</u>	<u>1,496,828</u>
TOTAL	<u>\$ 1,575,444</u>	<u>\$ 1,521,009</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	2014 Total
OPERATING REVENUES:					
Contributions and grants	\$ 11,475	\$ 1,904	\$ -	\$ 13,379	\$ 14,930
Investment returns designated for current use	33,240	160		33,400	32,935
Membership revenue	3,048			3,048	2,630
Admission revenue	2,531			2,531	2,585
Tuition revenue	2,129			2,129	1,642
Auxiliary revenue	3,335			3,335	3,061
Other	1,654			1,654	1,730
Net assets released from restriction	4,969	(4,969)		-	
Total operating support and revenue	62,381	(2,905)	-	59,476	59,513
OPERATING EXPENSES:					
Program services:					
Curatorial and collections	9,348			9,348	8,717
Exhibitions	4,262			4,262	6,227
Education and public programs	6,911			6,911	6,490
Glassell School	3,902			3,902	3,690
Bayou Bend	3,510			3,510	3,504
Rienzi	1,580			1,580	1,574
Membership activities	1,022			1,022	1,472
Buildings and Grounds and Security	11,711			11,711	11,875
Sub-total program services	42,246	-	-	42,246	43,549
Supporting services:					
Management and general	10,788			10,788	9,637
Auxiliary activities	3,363			3,363	3,388
Fundraising	4,673			4,673	4,288
Sub-total supporting services	18,824	-	-	18,824	17,313
Total operating expenses before depreciation and amortization	61,070	-	-	61,070	60,862
OPERATING SURPLUS (DEFICIT) BEFORE DEPRECIATION AND AMORTIZATION	1,311	(2,905)	-	(1,594)	(1,349)
DEPRECIATION AND AMORTIZATION	7,459			7,459	6,708
CHANGES IN NET ASSETS FROM OPERATIONS	(6,148)	(2,905)	-	(9,053)	(8,057)
CHANGES IN NONOPERATING ACTIVITIES:					
Contributions designated for capital expenditures and long term investment	215	80,380	5,333	85,928	52,454
Contributions for the purchase of art	6,555	1,514		8,069	28,279
Investment returns designated for art acquisition	15,202	4,630		19,832	19,308
Acquisition of art objects net of proceeds from the sale of art	(27,340)			(27,340)	(31,539)
Investment return in excess of amounts designated for current use and art acquisition	(49,425)	3,719		(45,706)	141,693
Net assets released from restriction to fund non-operating activities	29,032	(29,032)		-	
Endowment related expenses (net)	(1,807)	462		(1,345)	(1,667)
Other				-	(2,889)
Clarification of donor intent		(5,652)	5,652	-	
CHANGE IN NET ASSETS	(33,716)	53,116	10,985	30,385	197,582
NET ASSETS—Beginning of year	301,687	509,415	685,726	1,496,828	1,299,246
NET ASSETS—End of year	\$267,971	\$562,531	\$696,711	\$1,527,213	\$1,496,828

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2014) (Dollars in thousands)

Area	Program Services													Total Expenses before Depreciation for the Year Ended June 30, 2015	Total Expenses before Depreciation for the Year Ended June 30, 2014
	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	\$5,875	\$ -	\$3,773	\$2,310	\$1,631	\$ 517	\$ 269	\$ 5,921	\$20,296	\$ 4,776	\$ 879	\$2,078	\$ 7,733	\$28,029	\$26,308
EMPLOYEE BENEFITS	877		586	409	323	86	30	1,162	3,473	793	127	256	1,176	4,649	4,563
PAYROLL TAXES	476		276	172	120	39	19	439	1,541	396	65	136	597	2,138	1,967
Total	7,228	-	4,635	2,891	2,074	642	318	7,522	25,310	5,965	1,071	2,470	9,506	34,816	32,838
OCCUPANCY	156		82	186	263	219		2,616	3,522	742		24	766	4,288	4,778
PROFESSIONAL FEES	519	635	379	27	16	5	76	1	1,658	950	212	513	1,675	3,333	2,554
POSTAGE AND SHIPPING	206	2,577	87	27	16	2	63		2,978	66	32	63	161	3,139	3,598
CONTRACT SERVICES	8	37	37	117	354	158		398	1,109	415	432	222	1,069	2,178	2,360
PROMOTION	16	5	616	52	43	16	369	1	1,118	53	84	544	681	1,799	1,791
SUPPLIES	248	232	115	232	118	210	1	268	1,424	231	36	82	349	1,773	1,406
PROGRAMS AND PREVIEWS	64	343	157	177	253	136	42		1,172	47	145	329	521	1,693	4,083
INSURANCE	569	81		67	61	20		588	1,386	180	2	3	185	1,571	1,828
COST OF GOODS SOLD					72				72		1,273		1,273	1,345	1,610
REPAIRS AND MAINTENANCE	4	146	2		118	116		444	830	449	1		450	1,280	1,149
MISCELLANEOUS	12	1	184	31	38	19	16	(145)	156	844	61	51	956	1,112	316
PRINTING AND PUBLICATIONS	6	11	248	72	52	20	130		539	24	3	283	310	849	901
TRAVEL	292	184	79	17	17	14	6	4	613	154	10	56	220	833	664
DUES AND SUBSCRIPTIONS	7		10	3	1			14	35	276	1	27	304	339	348
COMMUNICATIONS	12			2	3	1	1		19	275			275	294	277
LIBRARY			266		9				275				-	275	272
INTEREST AND TAXES									-	117			117	117	39
PHOTOGRAPHY	1	10	14	1	2	2			30			6	6	36	50
TOTAL	<u>\$9,348</u>	<u>\$4,262</u>	<u>\$6,911</u>	<u>\$3,902</u>	<u>\$3,510</u>	<u>\$1,580</u>	<u>\$1,022</u>	<u>\$11,711</u>	<u>\$42,246</u>	<u>\$10,788</u>	<u>\$3,363</u>	<u>\$4,673</u>	<u>\$18,824</u>	<u>\$61,070</u>	<u>\$60,862</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (Dollars in thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 30,385	\$ 197,582
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	7,459	6,708
Write off of salvage values		512
Gains on sale of investments	(76,310)	(38,049)
Net unrealized depreciation (appreciation) on investments	91,735	(133,732)
Distributions from investing activities	34,803	17,021
Contributions restricted by donors	(89,131)	(56,944)
(Increase) in receivables	(51,820)	(6,981)
Decrease in inventory	459	651
Decrease (increase) in prepaid expenses	1,167	(1,295)
Increase in liabilities	<u>24,050</u>	<u>8,384</u>
Net cash used in operating activities	<u>(27,203)</u>	<u>(6,143)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(16,757)	(19,317)
Return of capital on investments	47,246	38,406
Purchases of investments	(232,314)	(99,488)
Proceeds from sale of investments	141,322	69,955
Increase in temporarily restricted cash and cash equivalents	(1,447)	(40,404)
Decrease in other assets	<u>22</u>	<u>47</u>
Net cash used in investing activities	<u>(61,928)</u>	<u>(50,801)</u>
CASH FLOWS FROM FINANCING ACTIVITY—Contributions restricted by donors		
	<u>89,131</u>	<u>56,944</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS—Beginning of year	<u>-</u>	<u>-</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (Dollars in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

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

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

Pledges Receivable—Pledges receivable are presented at the net present value of future cash flows discounted at the five-year Treasury bill rate. An allowance is made for uncollectible pledges based on the Museum’s analysis of past collection experience and other judgmental factors.

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

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

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

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

The Museum spending rule attempts to achieve two objectives by using a long-term spending rate of 5.0% combined with a smoothing rule that adjusts spending gradually to changes in endowment value. The amount released under the spending rule is based on a weighted average of prior spending adjusted for inflation (80% weight) and an amount determined by applying the target rate to the current endowment market value as of December 31 (20% weight), subject to collar limits of 4.75-5.75%.

Property—Property is recorded at cost or the estimated fair value at the date of the gift. The Museum reports gifts of land, buildings, and equipment as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service; if insignificant, gifts of long-lived assets are expensed when received.

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

Deferred Revenue—Deferred revenue represents advance rentals related to the expansion of the Museum and is being recognized using the straight-line method over 2 separate lease terms through 2064.

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

Art Collection—With approximately 68,500 works at June 30, 2015, the Museum's permanent collection of world art spans 6,000 years and six continents. The Museum acquires its art collection through purchases or by gifts. The cost of all art objects purchased, together with the value of art objects obtained by gift (for which the Museum receives a reasonable estimate), is reported as a part of acquisition of art objects net of proceeds from the sale of art. In accordance with policies followed by many art museums, no value has been assigned in the statements of financial position to the Museum's art collection.

Purchases for the art collection were \$22,255 and \$13,070 for the years ended June 30, 2015 and 2014, respectively. The value of art objects obtained by gifts is reported as contributions and collection expense in the statements of activities and totaled \$5,085 and \$18,469 for the years ended June 30, 2015 and 2014, respectively. Deaccessions made during the years 2015 and 2014 had a fair market value of \$67 and \$5, 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, 2015 and 2014, the Museum received donated legal services valued at \$67 and \$154, 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 18, 2015, 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 is 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.

In April 2015, the FASB issued ASU No. 2015-07 (ASU 2015-07), *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (Issue 14-B)*, which removes the requirement to categorize within the fair value hierarchy investments for which the practical expedient is used to measure fair value at net asset value (NAV). Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the

disclosure is consistent with the amount on the balance sheet. Further, entities must provide the disclosures in ASC 820-10-50-6A, *Fair Value Measurement*, only for investments for which they elect to use the NAV practical expedient to determine fair value. ASU 2015-07 is effective for the year beginning July 1, 2017, with early adoption permitted. Management has not yet determined the impact, if any, that implementation of ASU 2015-07 will have on the Museum's financial statements.

2. ENDOWMENT FUNDS AND INTERPRETATION OF RELEVANT LAW

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

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

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

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

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

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

- The duration and preservation of the fund
- The purposes of the Museum and the fund
- General economic conditions

- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Museum
- The investment policies of the Museum

Changes in endowment net assets for the fiscal years ended June 30, 2015 and 2014, are as follows:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets—beginning of year	\$ 200,439	\$ 300,569	\$ 685,726	\$ 1,186,734
Clarification in donor intent			5,652	5,652
	<u>200,439</u>	<u>300,569</u>	<u>691,378</u>	<u>1,192,386</u>
Investment return:				
Investment income	10,768	11,334		22,102
Net realized gains	37,617	38,451		76,068
Net unrealized losses	<u>(44,638)</u>	<u>(45,779)</u>		<u>(90,417)</u>
Total investment return	<u>3,747</u>	<u>4,006</u>	-	<u>7,753</u>
Contributions			5,333	5,333
Other	459	462		921
Appropriated for expenditures	(3,412)			(3,412)
Transfers to other funds	(53,068)			(53,068)
Net assets released from restrictions	<u>7,656</u>	<u>(7,656)</u>		-
Endowment net assets—end of year	<u>\$ 155,821</u>	<u>\$ 297,381</u>	<u>\$ 696,711</u>	<u>\$ 1,149,913</u>
	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—beginning of year	\$ 135,377	\$ 226,494	\$ 685,153	\$ 1,047,024
Investment return:				
Investment income	10,682	11,219		21,901
Net realized gains	18,792	18,977		37,769
Net unrealized gains	<u>65,018</u>	<u>67,797</u>		<u>132,815</u>
Total investment return	<u>94,492</u>	<u>97,993</u>	-	<u>192,485</u>
Contributions			573	573
Other	472	540		1,012
Appropriated for expenditures	(3,522)			(3,522)
Transfers to other funds	(50,838)			(50,838)
Net assets released from restrictions	<u>24,458</u>	<u>(24,458)</u>		-
Endowment net assets—end of year	<u>\$ 200,439</u>	<u>\$ 300,569</u>	<u>\$ 685,726</u>	<u>\$ 1,186,734</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 \$284,083 (18% of 2015 net assets) and \$314,416 (21% of 2014 net assets) as of June 30, 2015 and 2014, 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 \$367,386 and \$459,120 as of June 30, 2015 and 2014, respectively.

The Museum has made capital commitments of \$523,758 and \$455,037 for purchases of limited partnership interests, of which the total net amount funded was \$361,903 and \$328,135 as of June 30, 2015 and 2014, respectively. Subsequent to June 30, 2015, the Museum funded an additional \$5,674.

Subsequent to June 30, 2015, the Museum made no additional commitments to investment managers in other asset classes.

A summary of investments as of June 30, 2015 and 2014, is as follows:

	2015		
	Cost	Market Value	Unrealized Appreciation (Depreciation)
At fair value:			
Equity and equity mutual funds	\$ 383,590	\$ 697,738	\$ 314,148
U.S. treasuries, bonds, and bond mutual funds	108,593	112,254	3,661
Alternative investments	237,472	284,083	46,611
Real estate and REITS	15,307	18,273	2,966
Money market mutual funds	<u>88,866</u>	<u>88,866</u>	<u>-</u>
Total investments	<u>\$ 833,828</u>	<u>\$ 1,201,214</u>	<u>\$ 367,386</u>
		2014	
	Cost	Market Value	Unrealized Appreciation (Depreciation)
At fair value:			
Equity and equity mutual funds	\$ 356,360	\$ 740,287	\$ 383,926
U.S. treasuries, bonds, and bond mutual funds	69,172	73,970	4,799
Alternative investments	247,097	314,416	67,319
Real estate and REITS	10,163	13,239	3,076
Money market mutual funds	<u>65,784</u>	<u>65,784</u>	<u>-</u>
Total investments	<u>\$ 748,576</u>	<u>\$ 1,207,696</u>	<u>\$ 459,120</u>

Investment income earned by the Museum and its allocation among net asset classifications for the years ended June 30, 2015 and 2014, are as follows:

	2015	2014
Investment income	\$ 22,951	\$ 22,152
Net realized gains on investments reported at fair value	76,310	38,052
Net unrealized (losses) gains on investments reported at fair value	<u>(91,735)</u>	<u>133,732</u>
Total investment income	<u>\$ 7,526</u>	<u>\$ 193,936</u>
Net asset classification of investment income:		
Unrestricted	\$ (982)	\$ 82,196
Temporarily restricted	<u>8,508</u>	<u>111,740</u>
Total investment income	<u>\$ 7,526</u>	<u>\$ 193,936</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, 2015 and 2014, the Museum valued, using Level 1 inputs, \$859,433 and \$871,467, 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, 2015 and 2014, using Level 2 inputs, the Museum valued \$73,248 and \$33,951, respectively, of investments, which included certain commingled equity funds, commingled debt funds and most government agency securities, investment-grade corporate bonds, certain mortgage products, less-liquid equities, and state and municipal obligations.

Level 3—Valuations based on inputs that are unobservable and not corroborated by market data. As of June 30, 2015 and 2014, using Level 3 inputs, the Museum valued \$268,533 and \$302,278, respectively, of investments, which included certain fixed-income funds, private equity and real estate investments, less-liquid corporate debt securities (including distressed debt instruments), collateralized debt obligations, and less-liquid mortgage securities (backed by either commercial or residential real estate). When observable prices are not available for these securities, the Museum uses one or more valuation techniques for which sufficient and reliable data is available. The degree of judgment exercised in determining fair value is greatest for securities categorized in Level 3, due to the inherent uncertainty of these valuations. Level 3 estimated values may differ significantly from the values that would have been used, had a ready market for the investment existed, and the differences could be material.

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

The financial instruments carried in the statement of financial position by caption and by level within the valuation hierarchy as of June 30, 2015 and 2014 were as follows:

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

	2014			Total
	Assets at Fair Value			
	Level 1	Level 2	Level 3	
Equity and equity mutual funds	\$ 740,287	\$ -	\$ -	\$ 740,287
U.S. treasuries, bonds, and bond mutual funds	52,157	21,813		73,970
Alternative investments		12,138	302,278	314,416
Real estate and REITS	13,239			13,239
Money market mutual funds	<u>65,784</u>			<u>65,784</u>
Total	<u>\$ 871,467</u>	<u>\$ 33,951</u>	<u>\$ 302,278</u>	<u>\$ 1,207,696</u>

The following table includes a rollforward for the year ended June 30, 2015 and 2014, of amounts for financial instruments classified within Level 3. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement. Net operating income/expenses, net realized gains, and net unrealized gains are included within realized and unrealized investment income (loss)—net within the statement of activities. The Museum records transfers between levels of the fair value hierarchy at the end of the reporting period. As of June 30, 2015, the Museum recorded transfers of \$2,780 from Level 3 to Level 1 as a result of the public issuance of one of its Level 3 investments. The common share value related to this public issuance is readily observable, resulting in a Level 1 classification.

	Level 3 Investments	
	2015	2014
Balance—beginning of fiscal year	\$ 302,278	\$ 277,012
Purchases	37,621	41,151
Distributions	(82,051)	(70,128)
Net operating income (expenses)	2,332	(5,163)
Net realized gains	44,766	22,175
Net unrealized (losses) gains	(33,633)	37,231
Transfers to Level 1	<u>(2,780)</u>	<u>-</u>
Balance—end of fiscal year	<u>\$ 268,533</u>	<u>\$ 302,278</u>

4. INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

A description of the alternative investments included in securities measured at fair value with significant unobservable inputs is as follows as of June 30, 2015 and 2014:

	Category	2015			
		Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Hedge Funds	(a)	\$ 25,974	\$ -	Quarterly–Annually	30–100 days
Private Equity Funds	(b)	139,697	62,850	N/A	N/A
Venture Capital Funds	(c)	18,372	1,225	N/A	N/A
Energy/Natural Resources Funds	(d)	79,295	77,527	N/A	N/A
Distressed Debt Funds	(e)	4,696		N/A	N/A
Real Estate Funds	(f)	<u>23,049</u>	<u>20,253</u>	N/A	N/A
Total		<u>\$291,083</u>	<u>\$161,855</u>		

2014

Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy Hedge Funds	(a) \$ 25,059	\$ -	Quarterly–Annually	30–100 days
Private Equity Funds	(b) 160,215	43,065	N/A	N/A
Venture Capital Funds	(c) 16,983	1,715	N/A	N/A
Energy/Natural Resources Funds	(d) 85,149	65,266	N/A	N/A
Distressed Debt Funds	(e) 6,889		N/A	N/A
Real Estate Funds	(f) <u>20,121</u>	<u>16,856</u>	N/A	N/A
Total	<u>\$314,416</u>	<u>\$126,902</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 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.
- (c) These venture capital funds invest in early-stage, high-growth private companies, principally in the information technology and life sciences/health care fields. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets of the fund and would be liquidated over five to 10 years. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.
- (d) This category invests in exploration and production companies, midstream companies, royalty interests, and other natural resource-focused companies. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets of the fund. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.
- (e) This category invests in financially distressed companies or companies in Chapter 11, concentrating on senior and secured debt instruments and U.S. private subordinated debt securities with significant equity components. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets of the fund. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.
- (f) This category invests in private equity and debt of real estate investments in the office, industrial, multifamily, hotel, and retail segments. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets of the fund. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.

The allocation of investments held by the Museum to the various endowments, operations, accessions, and plant accounts as of June 30, 2015, is as follows:

	Cost	Market Value
Operations endowment investment accounts:		
Museum:		
The Caroline Wiess Law Operating Endowment	\$ 333,704	\$ 361,438
Brown Foundation Maintenance Endowment	37,463	125,840
Alice Pratt Brown, "Brown Wing" Endowment	7,708	31,186
The General and Mrs. Maurice Hirsch Library Endowment	9,588	21,119
Permanent Endowment	3,789	19,136
Alfred C. Glassell, Jr. Endowment Fund for The Museum of Fine Arts, Houston	11,782	16,102
Jesse H. and Mary Gibbs Jones Exhibition Endowment	3,029	8,894
Cornelia and Meredith Long Operating Endowment	5,637	5,649
Robert A. Welch—Works of Art Restoration Endowment	1,715	5,499
The Wortham Foundation Audrey Jones Beck Building Endowment	4,291	4,990
W. T. and Louise J. Moran Education Director Endowment	3,547	4,193
Gus and Lyndall Wortham Curatorial Chair Endowment	1,265	3,714
Audrey Jones Beck Capital Campaign Endowment	3,140	2,861
Cullinan Wing Endowment	632	2,821
The Caroline Wiess Law Education Endowment	1,566	2,348
The Carol Crow Photography Conservator Chair Endowment	1,587	2,003
Audrey Jones Beck European Art Curator Endowment	2,093	1,907
Latin American and Latino Art Curator Endowment	1,578	1,821
Fayez Shalaby Sarofim and Meredith J. Long Endowment Fund for Exhibitions	1,052	1,202
William Randolph Hearst Educational Outreach Endowment	566	1,069
Harry C. Wiess Memorial Endowment	218	987
National Endowment for the Humanities—Education Endowment	638	857
The Fondren Foundation Education Endowment	540	633
B.M.C. Software, Inc. Education Endowment	532	605
The Wallace Foundation Education Endowment	575	582
John Blodgett Davis Endowment Fund	558	564
Shell Companies Exhibition Endowment	113	332
Neal Myers and Ken Black Children's Art Fund	207	328
National Endowment for the Arts—Planning and Stabilization	323	320
The Margaret Cooke Skidmore Endowed Exhibition Fund	259	315
Frank and Eleanor Freed Lecture Series Endowment	144	265
The Cyvia and Melvyn Wolff Endowment for Exhibitions	229	225
The Virginia and Ira Jackson Lecture on Prints and Drawings Endowment	195	212
Houston Antiques Dealers Association Endowment	122	155
Alice Pratt Brown Garden Endowment	52	119
Favrot Education Endowment Fund	105	105
Garden Endowment	23	67
Ralph S. O'Connor Statue Maintenance Endowment	33	37
The John C. Wynne Memorial Lecture Series for Arts Education	35	36
Michael W. Dale Decorative Arts Exhibition Endowment	32	30
Beth B. Schneider Endowed Summer Internship Fund	23	21
	<u>440,688</u>	<u>630,587</u>
Total Museum		

(Continued)

	Cost	Market Value
Bayou Bend Collection and Gardens:		
Bayou Bend Trust Endowment	\$ 3,979	\$ 13,856
Bayou Bend Endowments	3,651	9,975
David B. Warren Symposium Endowment	281	334
The Carol and Les Ballard Endowed Lecture Series	269	289
Underwood Bayou Bend Annual Gift Endowment	74	175
The Judy and Charles Tate Education Endowment	108	117
Bayou Bend 50th Anniversary Endowment	116	109
The Twinkle Fund in support of operations for Bayou Bend Collection and Gardens	22	22
The Sparkle Fund in support of education programs for the docents at Bayou Bend Collection and Gardens	<u>6</u>	<u>6</u>
Total Bayou Bend Collection and Gardens	<u>8,506</u>	<u>24,883</u>
Glassell School of Art:		
Alfred C. Glassell, Jr. Endowment Fund	10,526	14,421
Glassell School Endowments	2,100	5,806
Glassell Scholarship Endowments	2,466	3,608
Laura Lee Blanton Endowment for the Core Program at the Glassell School of Art	649	626
Glassell School Special Endowment	<u>1</u>	<u>1</u>
Total Glassell School of Art	<u>15,742</u>	<u>24,462</u>
Rienzi:		
The Carroll Sterling and Harris Masterson III Endowment	5,956	12,224
The Caroline Wiess Law Endowment	5,795	10,333
Rienzi Garden Endowment Fund	<u>440</u>	<u>392</u>
Total Rienzi	<u>12,191</u>	<u>22,949</u>
Total Operations Endowment Investment Accounts	<u>477,127</u>	<u>702,881</u>
Accessions Endowment Investment Accounts:		
Caroline Wiess Law Accessions Endowment	213,921	234,034
Brown Foundation Accessions Endowment	14,240	50,163
Alfred C. Glassell, Jr. Endowment Fund for Accessions	35,345	48,308
Alice Pratt Brown Museum Endowment	11,187	46,379
Agnes Cullen Arnold Endowment	5,311	25,836
Director's Accessions Endowment	2,682	14,661
Audrey Jones Beck Accessions Endowment	9,349	11,321
Alvin S. Romansky Print Accessions Endowment	1,143	2,663
Long American Art Endowment	274	1,170
The Cyvia and Melvyn Wolff Endowment for American Art	920	897
S. I. Morris Photography Endowment	300	849
Lora Jean Kilroy Accessions Endowment	628	642
W. H. Keenan Family Endowment Fund	417	466
Rienzi Collections Endowment Fund	419	416

(Continued)

	Cost	Market Value
The Marjorie G. and Evan C. Horning Print Fund	\$ 119	\$ 376
Jack R. McGregor Endowment Fund for Glass	284	307
Myron Bonham Deily Endowment Fund for Latin American Art	264	259
Alice C. Simkins Drawing Endowment Fund	189	212
The Ann Gordon Trammell American Art Endowment Fund	189	205
Marian and Speros Martel Early Americana Accessions Endowment Fund Honoring William S. Kilroy	159	163
The Pamela and David Ott American Art Endowment	142	148
Mundy Photography Department Endowment	143	146
Elizabeth S. and Marjorie G. Horning Asian Art Accessions Endowment Fund	111	141
Michael K. Brown Metals Endowment Fund	128	138
The Ira and Virginia Jackson Endowment Fund	127	129
The Gloria Garic Anderson Endowment Fund For Accessions for Bayou Bend	114	126
Bayou Bend Docent Organization Endowment Fund	107	116
Houston Junior Woman's Club Charitable Fund—An Endowment Fund for Bayou Bend Accessions	98	98
Decorative Arts Accessions Endowment Fund	67	86
The Anne Wilkes Tucker Young Photographers Endowment	65	65
The Carol Jean and Michael Moehlman Bayou Bend Accessions Endowment Fund	55	62
The Alice C. Simkins Endowment for Southern Art for Bayou Bend	56	56
The Toni and Ralph Wallingford Accessions Endowment for Bayou Bend	54	50
Marjorie & Evan Horning Endowment for Decorative Arts	37	45
Lynn and Marcel Mason Photography Endowment Fund	37	36
Photography Endowment	18	22
Linda and Ronny Finger Endowment Fund	<u>16</u>	<u>21</u>
 Total Accessions Endowment Investment Accounts	 <u>298,715</u>	 <u>440,812</u>
 Total investments within operations, accessions, and plant accounts	 <u>(2,337)</u>	 <u>(2,337)</u>
 Total investments within plant account	 <u>60,323</u>	 <u>59,858</u>
 Total investments	 <u>\$ 833,828</u>	 <u>\$ 1,201,214</u>

(Concluded)

5. PLEDGES RECEIVABLE

As of June 30, 2015 and 2014, the Museum had unconditional pledges receivable of \$159,505 and \$115,764, respectively. Pledges receivable—net represents the present value of future cash flows, discounted at the average five-year Treasury bill rate (1.68% as of June 30, 2015 and 2014), and are as follows:

	2015	2014
Due within one year	\$ 38,503	\$ 26,729
Due within two to five years	100,975	85,502
Due after five years	<u>20,027</u>	<u>3,533</u>
Total	159,505	115,764
Less present value discount	(5,705)	(3,081)
Less allowance for uncollectible pledges	<u>(609)</u>	<u>-</u>
Pledges receivable—net	<u>\$ 153,191</u>	<u>\$ 112,683</u>

6. PROPERTY

Property as of June 30, 2015 and 2014, is as follows:

	2015	2014
Land	\$ 28,362	\$ 28,362
Construction in progress	19,738	9,615
Buildings and capital improvements	159,884	156,776
Equipment, furniture, and fixtures	<u>17,765</u>	<u>14,238</u>
Total	225,749	208,991
Less accumulated depreciation	<u>(92,382)</u>	<u>(84,922)</u>
Total	<u>\$ 133,367</u>	<u>\$ 124,069</u>

7. PENSION PLAN

The Museum has a money-purchase defined contribution pension plan (the “Plan”) covering substantially all of its regular full- and part-time employees. The Plan provides for employee contributions of up to 100% of compensation, up to the maximum dollar limit, which is set by the Internal Revenue Service, and employer contributions of 5% of the employee’s compensation. Museum contributions are fully vested immediately upon the employee’s participation. The Museum’s policy is to currently fund accrued pension cost. The total expense for the employer contributions to the Plan for the year ended June 30, 2015 and 2014, was \$852 and \$855, respectively, which is included as part of employee benefits expense.

8. RELATED-PARTY TRANSACTIONS

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

9. CAPITAL AND OPERATING LEASE COMMITMENTS

The Museum financed the purchase of certain equipment through capital lease obligations with a principal amount of \$3,284 for the year ended June 30, 2015, compared to \$2,903 for the year ended June 30, 2014. Amounts are included in "accounts payable and accrued liabilities" in the accompanying statements of financial position. The equipment was placed in service during the year ended June 30, 2015, and has an estimated useful life of 3 to 5 years.

The capital leases will be repaid as follows:

Years Ending June 30

2016	\$ 933
2017	929
2018	780
2019	584
2020	358
Less interest	<u>(300)</u>
Total capital lease obligation	<u>\$ 3,284</u>

The Museum has various noncancelable operating lease commitments as of June 30, 2015, payable as follows:

Years Ending June 30

2016	\$ 24
2017	18
2018	18
2019	18
2020	<u>13</u>
Total lease commitments	<u>\$ 91</u>

Rental expense under these leases for the years ended June 30, 2015 and 2014, was \$294 and \$274, respectively.

10. NET ASSETS

Temporarily and permanently restricted net assets as of June 30, 2015 and 2014, were restricted for the following uses:

	<u>2015</u>		<u>2014</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Operations and operations endowment	\$ 139,160	\$ 427,843	\$ 126,272	\$ 417,288
Accessions and accessions endowment	190,537	268,868	207,926	268,438
Plant	<u>232,834</u>	<u>-</u>	<u>175,217</u>	<u>-</u>
Total	<u>\$ 562,531</u>	<u>\$ 696,711</u>	<u>\$ 509,415</u>	<u>\$ 685,726</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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