

DALLAS MUSEUM OF ART
CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2016

DALLAS MUSEUM OF ART

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Report of Independent Certified Public Accountants

Board of Trustees
Dallas Museum of Art

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Dallas Museum of Art and its subsidiaries (collectively referred to as the “Museum”), which comprise the consolidated statement of financial position as of June 30, 2016, the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated 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.

Auditor’s 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 auditor’s 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 auditor considers 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter—Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Endowment Funds as of June 30, 2016 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

LANE GORMAN TRUBITT, LLC

Dallas, Texas

November 11, 2016

Dallas Museum of Art
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS

Cash and cash equivalents	\$	1,027,001
Investments, at fair value		188,198,501
Contributions receivable, net		2,441,372
Other receivables, net		2,877,538
Accrued investment income		113,001
Inventories, net		772,876
Prepaid expenses and deposits		1,418,956
Beneficial interest in trusts		68,288
Books, net		555,510
Property and equipment, net		<u>13,101,239</u>
Total assets	\$	<u><u>210,574,282</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$	998,546
Accrued expenses		6,211,245
Revolving line of credit payable		2,885,000
Deferred revenue		1,466,587
Liability on annuity contracts		246,152
Note payable		<u>985,715</u>
Total liabilities		<u><u>12,793,245</u></u>

NET ASSETS

Unrestricted		7,294,104
Temporarily restricted		55,236,479
Permanently restricted		<u>135,250,454</u>
Total net assets		<u><u>197,781,037</u></u>
Total liabilities and net assets	\$	<u><u>210,574,282</u></u>

The accompanying notes are an integral part of these financial statements.

Dallas Museum of Art
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support				
Appropriations from the City of Dallas	\$ 1,022,699	\$ -	\$ -	\$ 1,022,699
Contributed services	4,233,138	50,066	-	4,283,204
Exhibition support	455,997	-	-	455,997
Contributions	6,210,452	-	-	6,210,452
Government grants	<u>675,376</u>	<u>37,479</u>	-	<u>712,855</u>
Total support	12,597,662	87,545	-	12,685,207
Revenue				
Auxiliary activities	4,536,671	53,497	-	4,590,168
Education	575,568	-	-	575,568
Miscellaneous	<u>76,057</u>	<u>60,079</u>	-	<u>136,136</u>
Total revenue	5,188,296	113,576	-	5,301,872
Other support and revenue				
Gifts—other than art	2,740,156	6,667,497	551,387	9,959,040
Net investment return	<u>(219,912)</u>	<u>(4,175,811)</u>	-	<u>(4,395,723)</u>
Total other support and revenue	2,520,244	2,491,686	551,387	5,563,317
Net assets released from restrictions	<u>10,606,853</u>	<u>(10,896,853)</u>	<u>290,000</u>	<u>-</u>
Total support and revenue	<u>30,913,055</u>	<u>(8,204,046)</u>	<u>841,387</u>	<u>23,550,396</u>
Expenses				
Collections and exhibitions	14,012,984	-	-	14,012,984
Education	3,462,601	-	-	3,462,601
External affairs and development	5,033,890	-	-	5,033,890
General and administration	7,455,501	-	-	7,455,501
Auxiliary activities	1,835,833	-	-	1,835,833
Additional minimum pension liability	<u>1,318,685</u>	-	-	<u>1,318,685</u>
Total expenses	<u>33,119,494</u>	<u>-</u>	<u>-</u>	<u>33,119,494</u>
Change in net assets before change related to collection items not capitalized	(2,206,439)	(8,204,046)	841,387	(9,569,098)
Collection items sold	-	-	-	-
Collection items purchased	<u>(287,300)</u>	<u>(3,073,957)</u>	-	<u>(3,361,257)</u>
Change in net assets	(2,493,739)	(11,278,003)	841,387	(12,930,355)
Net assets at beginning of fiscal year	<u>9,787,843</u>	<u>66,514,482</u>	<u>134,409,067</u>	<u>210,711,392</u>
Net assets at end of fiscal year	<u>\$ 7,294,104</u>	<u>\$ 55,236,479</u>	<u>\$ 135,250,454</u>	<u>\$ 197,781,037</u>

The accompanying notes are an integral part of these financial statements.

Dallas Museum of Art
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

Cash flows from operating activities:	
Change in net assets	\$ (12,930,355)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	1,251,870
Net realized and unrealized losses on investments	7,471,714
Contributions restricted for long-term investments	(5,521,836)
Purchases of owned art collection	3,361,257
Change in operating assets and liabilities, net:	
Contributions and other receivables, net	773,471
Accrued investment income	11,036
Inventories, net	(143,528)
Prepaid expenses and deposits	381,567
Accounts payable	(256,277)
Accrued expenses	2,276,832
Deferred revenue	1,089,537
Liability on annuity contracts	(12,402)
Net cash used in operating activities	<u>(2,247,114)</u>
Cash flows from investing activities:	
Purchases of books, property, and equipment	(4,527,999)
Proceeds from sales of investments	27,364,571
Purchases of owned art collection	(3,361,257)
Purchases of investments	<u>(24,766,603)</u>
Net cash used in investing activities	<u>(5,291,288)</u>
Cash flows from financing activities:	
Proceeds from contributions restricted for:	
Investment in endowment	551,387
Investment in plant	4,970,449
Payments on the line of credit	(615,000)
Payments on note payable	<u>(171,428)</u>
Net cash provided by financing activities	<u>4,735,408</u>
Decrease in cash and cash equivalents	(2,802,994)
Cash and cash equivalents at beginning of year	<u>3,829,995</u>
Cash and cash equivalents at end of year	<u>\$ 1,027,001</u>
Supplemental cash flow disclosure:	
Cash paid for interest	\$ 63,958

The accompanying notes are an integral part of these financial statements.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATURE OF OPERATIONS

Dallas Museum of Art (the “Museum”) is a Texas nonprofit corporation serving the Dallas, Texas area by providing art exhibits, education services, lectures, and other public programs to the community. The Museum’s mission is to promote research, dialogue, and public participation, helping to reveal the insights of artists from every continent over the last 5,000 years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements under accounting principles generally accepted in the United States of America (“GAAP”) is as follows:

Principles of Consolidation

The Museum consolidates the accounts of Dallas Museum of Art Leagues (the “Leagues”), Museum Services Corporation (“MSC”), and Art-Facts, Inc. (“Art-Facts”). The Leagues are exempt from federal income tax under the Museum’s determination letter from the Internal Revenue Service and are controlled by the Museum. MSC and Art-Facts are wholly-owned taxable subsidiaries of the Museum.

All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets—net assets 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 related investments for general or specified purposes.

Temporarily restricted net assets—net assets subject to donor-imposed stipulations that may or will be met by actions of the Museum and/or the passage of time.

Unrestricted net assets—net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Expenses are reported as decreases in unrestricted net assets. Gains and losses on non-endowment investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as revenues in the period unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash and works of art are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and the expected period of payment. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided upon management’s judgment including such factors as prior collection history, type of contribution, nature of fundraising activity and other relevant factors. The Museum writes off pledges when they become uncollectible.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Realized and unrealized gains (losses) and income on investments of endowment and similar funds are reported as follows:

- as increases (decreases) in permanently restricted net assets if the terms of the gift require that they be included in the principal of a permanent endowment fund;
- as increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on their uses or if the funds have not yet been appropriated for expenditure by the Museum in the case of donor-imposed endowments and;
- as increases (decreases) in unrestricted net assets in the case of board-designated endowments or in the event that a donor-restricted endowment's fair value falls beneath its corpus.

Use of Estimates

The preparation of financial statements in conformity with 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 those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly-liquid investments purchased with an initial maturity of three months or less, including cash and cash equivalents in the investment portfolio. The Museum maintains its cash and cash equivalents with high credit quality financial institutions in Dallas, Texas, which at times may exceed federally insured limits. The Museum has not incurred any losses in these accounts and does not believe that they are exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments in equity and debt instruments are stated at fair value based on quoted market prices. The Museum also invests in alternative investments. The Museum's investment policy, as approved by the Board of Trustees, permits investments in hedge funds and funds-of-funds. Currently the Museum holds alternative investments with two fund-of-funds managers. The carrying amounts of alternative investments are based on net asset value as a practical expedient in estimating fair value. The net asset values are determined by the management of the funds, and Museum management believes that the carrying value is a reasonable estimate of the fair value as of June 30, 2016. The net realized and unrealized gains (losses) in fair value of investments are reflected in the consolidated statement of activities and changes in net assets within net investment return.

Contributions and Other Receivables

Receivables are primarily due from foundations and individuals related to gift pledges and are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Receivables outstanding more than 90 days are generally considered past due. The Museum determines its allowance based on past due amounts. The Museum writes off receivables when deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. At June 30, 2016 the allowance for doubtful accounts was \$960.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories consist of Museum store inventory and are recorded at the lower of cost or market on the first-in, first-out basis. Management provides for an allowance for obsolete and slow-moving merchandise based on their assessment of historical sales and other relevant factors affecting inventory. The Museum had a reserve for slow-moving inventory of \$129,366 at June 30, 2016.

Owned Art Collection

All works of art acquired by the Museum either through purchase or gift on or after October 1, 1984 are owned by the Museum. However, this does not include works of art on loan from private owners, the Foundation for the Arts, the Munger Fund, or the McDermott Foundation. Pursuant to a contract between the Foundation for the Arts and the Museum, the art owned by the Foundation for the Arts is for the sole use of the Museum. All works of art acquired prior to October 1, 1984, are owned by the City of Dallas, Texas (the "City").

The Museum accounts for artistic and historic items as collection items if they meet the definition of a collection according to the criteria for recognition under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-360-25-3 – *Not-for-Profit Entities - Property, Plant, and Equipment*. The criteria state that to be a collection the assets are (1) held for public exhibition, (2) protected and preserved, and (3) are subject to an organizational policy that requires proceeds from the sale of artifacts to be used to acquire other items for collections absent any donor imposed restrictions. The artifacts are made up of items of historical significance and art objects that are held for educational, research, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. As of June 30, 2016, the Museum has approximately \$326,735,000 of donated artifacts that have not been recorded in the accompanying financial statements.

The Museum has a policy of not capitalizing the collection of artistic and historic items in its financial statements. Accordingly, no collection items are recognized as assets, whether they are purchased or received as a donation. Purchases of works of art are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset class. The Museum added 374 individual objects to the collection during the year ended June 30, 2016 through gifts, transfers or purchases. The Museum purchased and expensed 44 individual objects during the year ended June 30, 2016. There were no deaccessions during the year ended June 30, 2016 .

Property and Equipment

Property and equipment are stated at cost or fair value at the date of gift if donated, less accumulated depreciation. The Museum capitalizes items in excess of \$5,000 with a useful life of at least three years. Depreciation is provided on the straight-line method over periods of three to 20 years.

Liability on Annuity Contracts

Under charitable gift annuity agreements, the Museum agrees to pay a donor an annuity in consideration for a specific gift. For charitable gift annuities, assets are recorded at fair value when received on the consolidated statement of financial position with liability recognized equal to the present value of amounts which the Museum expects to pay annuity beneficiaries. Changes in the calculated liability due to increases or decreases in the actuarially-determined life expectancy of annuity beneficiaries are reflected as changes in the value of split-interest agreements within general and administration on the consolidated statement of activities and changes in net assets. At June 30, 2016 there was one annuity which was calculated using a discount rate of 7.2%. During the year ended June 30, 2016 the liability on annuity contract decreased by \$12,402.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interest in Trusts

For charitable trusts of which the Museum is not the trustee, contributions are recognized in the year the Museum becomes aware of the existence of the agreement and are valued at the discounted present value of expected future cash flows. The Museum is a beneficiary to a charitable remainder trust. The expected future cash flows have been discounted at 3.02% over the life expectancy of the parties involved and calculated based upon the current fair value of the trust's assets and other factors stipulated in the agreements. The present value of the expected future cash flow has been reflected as a component of beneficial interest in trusts in the consolidated statement of financial position. The change in estimated present value is reflected as a change in value of the trusts in the consolidated statement of activities and changes in net assets.

Deferred Revenue and Charges

The Museum recognizes revenues and expenses of exhibitions during the periods in which the exhibitions are conducted.

Contributed Services

The Museum recognizes contributions of services received if such services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing such skills, and would typically need to be purchased if not contributed.

A substantial number of unpaid volunteers have made significant contributions of their time to the Museum. The value of this contributed time is not reflected in the consolidated financial statements since it does not meet the criteria discussed above.

Membership Revenue

Beginning in January 2013, the Museum returned to free general admission and launched a new membership model available to the public for free. In addition to providing free general admission for all visitors, the Museum offers two membership tracks that further visitor engagement: (a) the DMA Friends program provides free membership to anyone who wishes to join and includes opportunities for increased access to Museum programs and staff, incentivizing participation through recognition and à la carte rewards; and (b) the DMA members program seeks the support of individuals, corporations, and foundations desiring to be a part of the Museum's efforts to deliver access to its extensive collection and diverse public programs. While DMA members receive benefits commensurate with their level of giving, their philanthropic involvement with the Museum enables the Museum to provide free admission and membership to the community at large. DMA members can contribute at a variety of levels, starting at \$100 per year.

Auxiliary Activities Revenue

Auxiliary activities revenue is derived from parking fees, café sales, store sales, and box office sales. Revenue is recognized when the sale occurs and is net of any sales taxes charged to customers.

Appropriations from the City of Dallas

The City of Dallas has agreed to pay a portion of providing services such as utilities, grounds, and building maintenance to the Museum. These revenues are recognized during the period the service is performed.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Museum is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986 (“IRC”), as amended, and as a public charity described in Section 501(c)(3) of the IRC. However, income generated from activities unrelated to the Museum’s exempt purpose is subject to tax under the IRC Section 511.

The Museum has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made in the consolidated financial statements regarding uncertain tax provisions. The Museum, including its underlying subsidiaries, does not have any outstanding interest or penalties, and none have been recorded in the consolidated statement of activities and changes in net assets for the year ended June 30, 2016. However, the conclusions regarding accounting for uncertainty in income taxes are subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations, and interpretations thereof.

The Museum estimates that it incurred \$6,425 of income taxes on unrelated business income during the year ended June 30, 2016. The Museum’s returns are generally subject to examination for three years after the later of the due date or date of filing. As a result, the Museum is no longer subject to income tax examinations by tax authorities for years prior to fiscal year 2013.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair Value Measurements

The Museum uses fair value guidance to measure assets and liabilities, including subsequent clarification for measurements in a market that is not active. The Museum considered this guidance with respect to the valuation of its financial and nonfinancial assets and liabilities and their corresponding designations within the fair value hierarchy described in Note 14.

Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share*, which removes the requirement to categorize, within the fair value hierarchy table, the investments for which fair value is measured using the net asset value per share practical expedient. Instead, an entity is required to include those investments as a reconciling item, so that the total fair value amount of investments in the disclosure is consistent with the fair value investment balance on the statement of financial position. In addition, the requirement to make certain disclosures for all investments eligible to be assessed at fair value with the net asset value per share practical expedient has been removed. Instead, such disclosures are restricted only to investments that the entity has elected to measure using the practical expedient. ASU No. 2015-07 is effective for reporting periods beginning after December 15, 2015 and early adoption is permitted. The Museum elected to early adopt ASU No. 2015-07 as of June 30, 2016. The adoption of this ASU had no impact on the statement of activities and changes in net assets for the year ended June 30, 2016. However, those investments for which fair value is measured using the net asset value practical expedient as of June 30, 2016 are no longer included within the fair value hierarchy.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowments

Under GAAP, a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) shall classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets. The amount classified as permanently restricted shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, the organization’s governing board determines must be retained (preserved) permanently consistent with the relevant law. For each donor-restricted endowment fund for which the restriction exists until the donor-restricted assets are appropriated for expenditure, the Museum classifies the portion of the fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure by the Board. The Museum is subject to the version of UPMIFA enacted by the State of Texas and adopted by its Board of Trustees, which is fully described in Note 15.

2. INVESTMENTS

Investments at fair value consist of the following at June 30, 2016:

Short-term investments	\$ 489,432
Equity securities	137,491,967
Corporate bonds and other debt securities	22,343,815
Alternative investments	<u>27,873,287</u>
	<u>\$ 188,198,501</u>

The following summarizes total net investment return:

Dividends and interest income	\$ 3,075,991
Net realized gain on investments	2,192,437
Net unrealized loss on investments	<u>(9,664,151)</u>
Total net investment return	<u>\$ (4,395,723)</u>

Investment fees and expenses are approximately \$92,000 for the year ended June 30, 2016.

3. RISKS AND UNCERTAINTIES

The Museum invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, overall market volatility, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Museum’s account balances and the amounts reported in the consolidated statement of financial position.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following unconditional promises to give at June 30, 2016:

Specified purpose	\$ 817,231
Endowment	1,625,000
Operating	20,000
Acquisition	2,500
Art Ball	<u>5,000</u>
	2,469,731
Less unamortized discount	<u>(28,359)</u>
Contributions receivable, net	<u>\$ 2,441,372</u>

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. CONTRIBUTIONS RECEIVABLE (Continued)

Contributions receivable were discounted using a rate of 0.67% for endowment funds and 1.63% for specified purpose funds.

Contributions receivable expected to be collected in:

Less than one year	\$ 2,069,731
One to five years	400,000
After five years	-
	\$ 2,469,731

The Museum has been notified that it has been included in various wills of deceased individuals. A receivable has not been recorded as the amounts, which are receivable from the estate, are not known as of the date of the report.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2016:

Furniture, fixtures, and improvements	\$ 19,318,481
Equipment and software	2,633,092
	21,951,573
Less accumulated depreciation and amortization	(8,866,344)
	13,085,229
Construction in progress	16,010
	\$ 13,101,239

Under an agreement with the City of Dallas, all on-site land and buildings of the Museum are the property of the City and are, accordingly, not capitalized. Also, under the terms of the aforementioned agreement, the City has granted the Museum the full use of the Museum land and facility at no charge through May 1, 2021. In addition, the City has committed to provide maintenance of the building and grounds and electric, gas, and water utilities, as well as to pay for a portion of the costs related to the works of art belonging to the City. See Note 12 for further discussion.

6. REVOLVING LINE OF CREDIT PAYABLE

On August 18, 2009, the Museum entered into a Credit Agreement with Bank of America, N.A. to create a \$5,000,000 revolving credit facility. The line matures in March 2017 and may be drawn on (subject to availability) or repaid at any time. All advances under the line are unsecured. As of June 30, 2016, \$2,885,000 was outstanding on the line. Interest charged on advances under this facility is based on LIBOR plus 1.20 percentage points. The interest rate at June 30, 2016 which was 1.642%. The line of credit contains various provisions and restrictions including limitations on liens and additional indebtedness and the maintaining of certain financial ratios. The Museum was in compliance with related loan covenants as of June 30, 2016.

7. NOTE PAYABLE

On April 3, 2015 the Museum's executed a \$1,200,000 note payable to Bank of America N.A. due in quarterly installments of \$42,857, plus interest, at an annual rate equal to the lesser of LIBOR plus 0.90 percentage points or the statutory maximum lawful rate. The interest rate at June 30, 2016 was 1.342%. The note matures April 3, 2022 and is secured by certain investments held in U.S. equity securities. At June 30, 2016 the fair value of these investments was approximately \$1,967,000. The note contains various provisions and restrictions including limitations on liens and additional indebtedness and the maintaining of certain financial ratios. The Museum was in compliance with related loan covenants as of June 30, 2016. Future scheduled maturities of the note are as follows:

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. NOTE PAYABLE (Continued)

Years ending June 30:

2017	\$ 171,428
2018	171,428
2019	171,428
2020	171,428
2021	171,428
Thereafter	<u>128,575</u>
	<u>\$ 985,715</u>

8. RESTRICTIONS ON NET ASSETS

Permanently restricted net assets consist of funds which are available to support the following purposes at June 30, 2016:

Operations and other	\$ 41,151,797
Education	25,658,974
Exhibitions, curatorial, and conservation	42,713,608
Acquisitions	<u>25,726,075</u>
	<u>\$ 135,250,454</u>

Temporarily restricted net assets are restricted to support the following purposes at June 30, 2016:

Operations and other	\$ 13,366,715
Education	13,935,439
Exhibitions, curatorial, and conservation	14,204,062
Acquisitions	<u>13,730,263</u>
	<u>\$ 55,236,479</u>

9. NET ASSETS RELEASED FROM RESTRICTIONS

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the year ended June 30, 2016 are as follows:

Operations and other	\$ 2,973,163
Education	3,320,156
Exhibitions, curatorial, and conservation	2,784,426
Acquisitions	<u>1,819,108</u>
	<u>\$ 10,896,853</u>

10. PENSION PLAN

The Museum has a noncontributory, defined benefit pension plan (the "Plan") covering substantially all personnel. Effective April 1, 2015, the Board of Trustees voted to "freeze" the Plan. Before the freeze, benefits were based on the employee's years of service and average monthly compensation over the previous five successive calendar years, out of the last 10 completed calendar years, which gives the highest average. Generally the Museum's funding policy was to contribute annually the minimum allowed by applicable regulations. Contributions were intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. PENSION PLAN (Continued)

The following table sets out the Plan's funded status as of June 30, 2016:

Actuarial present value of projected benefit obligation:	
Projected benefit obligation	\$ (12,747,264)
Plan assets at fair value	<u>8,527,744</u>
Net statement of financial position liability	<u>\$ (4,219,520)</u>
Unrestricted net assets:	
Net loss	\$ 5,847,877
Additional minimum liability	<u>\$ 5,847,877</u>
Employer contributions	<u>\$ -</u>
Benefits paid	<u>\$ 562,523</u>
Net period benefit cost	<u>\$ 201,785</u>

An unfunded pension benefit obligation was recognized by the Museum as of June 30, 2016 due to the unfunded status of the projected benefit obligation. The unfunded status as of June 30, 2016 of \$4,219,520, is included within accrued expenses in the consolidated statement of financial position. The accumulated benefit obligation as of June 30, 2016 was \$12,747,264.

Assumptions Used in Determining Net Period Benefit Cost

The weighted average discount rate used in determining the net period benefit cost for June 30, 2016 was 3.62%. There was no weighted average compensation increase for June 30, 2016. The expected long-term rate of return on plan assets was 7.5% for June 30, 2016.

Assumptions Used in Determining Projected Benefit Obligations

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation at June 30, 2016 was 3.62%. There was no weighted average compensation increase for June 30, 2016. The expected long-term rate of return on plan assets was 7.5% for the year ended June 30, 2016.

The expected long-term rate of return assumption reflects the average return expected based on the investment strategies and asset allocation on the assets invested to provide for the Plan's liabilities. The Museum considered the broad equity and bond indices, long-term return projections, and actual long-term historical Plan performance when evaluating the expected long-term rate of return assumption. Based on the Plan's recent 61% equity, 10% hedge funds, 9% REITs and 20% fixed income asset allocation, the 2016 Gallagher Fiduciary Advisors Investment Model provides a weighted average expected return of 5.96% with standard deviation of 11.9%. The estimated probability distributions of geometric returns for 20 years show that the 50th percentile is 7.5%.

Expected benefit payments for the next 10 years are as follows for the years ending June 30:

2017	\$ 567,000
2018	532,000
2019	527,000
2020	563,000
2021	552,000
2022 through 2026	<u>2,882,000</u>
	<u>\$ 5,623,000</u>

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. PENSION PLAN (Continued)

Assumptions Used in Determining Projected Benefit Obligations (Continued)

Plan assets are allocated as follows at June 30, 2016:

Equity securities:		
Pooled, common and collective funds		69.9%
Fixed income securities:		
Pooled, common and collective funds		28.1%
Other:		
Money market funds		<u>2.0%</u>
Total plan assets		<u><u>100.0%</u></u>

The following table summarizes the carrying amounts and estimated fair values (fully described in Note 14), of the Plan's financial instruments measured at fair value at June 30, 2016:

	<u>Quoted Prices in Active Measured at Fair Value</u>	<u>Significant Other Observable Markets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 2)</u>	<u>Inputs (Level 3)</u>
Investments:				
Short-term investments (a):				
Money market funds	\$ 171,510	\$ 171,510	\$ -	\$ -
Total assets in fair value hierarchy	<u>171,510</u>	<u>\$ 171,510</u>	<u>\$ -</u>	<u>\$ -</u>
Pooled separate account funds (b)	<u>8,356,234</u>			
Total investments at fair value	<u>\$ 8,527,744</u>			

The following methods and assumptions were used to estimate the fair value of each class of financial instruments within the pension plan:

- (a) *Short-term investments:* Valued based on quoted market prices or at cost plus accrued dividend and interest income which approximates fair value.
- (b) *Pooled separate account funds:* These investments are valued using net asset value as a practical expedient, and therefore have not been classified in the fair value hierarchy

The methods described above could produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Multiple asset classes are implemented in order to obtain the benefits of diversification and maximize long-term return for a given level of risk. Risk tolerance is developed by reviewing the funded status of the Plan, duration of the Plan's liabilities, the income and liquidity requirements, and the financial condition of the Museum. The investment portfolio comprises a diversified combination of short-term investments, equity securities funds and fixed income securities funds. The allocation among equity securities funds, fixed income securities funds, and short-term investments is determined by prevailing market conditions and relative valuations among asset classes. The Plan's financial condition is monitored on an ongoing basis by means of investment portfolio reviews and an annual independent actuarial valuation.

The Museum offers pretax payroll deferrals to a supplementary voluntary tax deferred annuity plan. The Museum is not required to make contributions to this plan.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. EXPENSES

Expenses consist of the following for the year ended June 30, 2016:

Program expenses	\$ 17,475,584
General and administrative	8,774,187
Supporting services	2,989,504
Fundraising	<u>3,880,219</u>
Total expenses	<u>\$ 33,119,494</u>

12. CONTRIBUTED GOODS AND SERVICES

As discussed in Note 5, the City provides facilities, utilities, and certain other services, such as grounds and building maintenance, without charge to the Museum. The costs, as determined by the City, of rent, utilities, services, and maintenance provided to the Museum, are recorded as revenue and expense in the consolidated statement of activities and changes in net assets and amounted to \$3,447,664 for the year ended June 30, 2016. The Museum received an additional \$835,540 of contributed goods and services from other sources during the year ended June 30, 2016.

13. ADVERTISING EXPENSES

During the year ended June 30, 2016, the Museum incurred approximately \$915,000, in advertising expenses. Amounts are expensed as incurred. These expenses are included in collections and exhibitions and external affairs and development in the accompanying consolidated statement of activities and changes in net assets.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

As a basis for considering market participant assumptions in fair value measurements, GAAP establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of the Museum's financial instruments. The inputs are summarized in three levels as outlined below:

Level 1 Inputs—Quoted prices (unadjusted) in active markets for identical assets and liabilities. Valuations of these instruments do not require a high degree of judgment since the valuations are based on readily available quoted prices in active markets.

Level 2 Inputs—Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying assumptions.

Level 3 Inputs—Unobservable inputs for the valuation of the asset or liability. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation. These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement. The Museum's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table summarizes the carrying amounts and estimated fair values, of the Museum's financial instruments measured at fair value in the consolidated statement of financial position at June 30, 2016:

	Carrying Amount	Measured at Fair Value	Level 1	Level 2	Level 3
Investments:					
Equity securities	\$ 137,491,967	\$ 137,491,967	\$137,491,967	\$ -	\$ -
Mutual funds –fixed income	5,842,131	5,842,131	5,842,131	-	-
Short-term investments	<u>489,432</u>	<u>489,432</u>	<u>489,432</u>	-	-
Total assets in fair value hierarchy	143,823,530	143,823,530	<u>\$143,823,530</u>	<u>\$ -</u>	<u>\$ -</u>
Other fixed income (a)	16,501,684	16,501,684			
Alternative investments (a)	<u>27,873,287</u>	<u>27,873,287</u>			
Total investments at fair value	<u>\$ 188,198,501</u>	<u>\$ 188,198,501</u>			
Beneficial interest in trusts	<u>\$ 68,288</u>	<u>\$ 68,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,288</u>

(a) These investments are valued using net asset value as a practical expedient, and therefore have not been classified in the fair value hierarchy

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The schedule below summarizes the activity for the items above which have been classified as Level 3 measurements:

	Split-interest Agreements
Ending balance, June 30, 2015	\$ 68,288
Total gains (losses):	
Included in realized/unrealized	-
Purchases, issuances, and redemptions, net	-
Ending balance, June 30, 2016	<u>\$ 68,288</u>

Total Level 3 gains or losses above are all included in the consolidated statement of activities and changes in net assets and all relate to assets still held at year end.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table summarizes the fair value measurement of the Museum's investments in certain entities that calculate net asset value per share:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
Investments in:				
Alternative				
Investments (2016)	\$ 27,873,287	\$ -	Quarterly/Monthly	45 Days - 90 Days
(a)(b)(c)				

- (a) This category includes investments in three hedge funds, organized as limited partnerships. These Funds pursue multiple strategies to diversify risks and reduce volatility. Investment strategies include event driven, relative value, macroeconomic, and equity long/short. One fund restricts redemptions to a quarterly basis with 90 days' notice, subject to 25% maximum per quarter, one fund allows for monthly redemptions with 45 days' notice and the other fund allows for quarterly redemptions with 60 days' notice or monthly redemptions with 60 days' notice, subject to a 1.5% redemption charge.
- (b) The amounts reported for the Museum's investments in the alternative investments are the estimates of the Museum's alternative investment managers, based on using the net asset value of the Museum's ownership interest in the alternative investment. The net asset values are determined by the fund manager based upon the latest investee information available, using fair value estimation techniques, substantiated, in part, by the investments' audited financial statements and supported by the due diligence of the Museum's investment management. However, given the inherent limitations in any estimation technique, the values presented herein are not necessarily indicative of the amount that the Museum could realize in a current transaction. Future events could affect the estimates of fair value and could be material to the financial statements.
- (c) The marketable alternative investments are carried at fair value. The Museum believes that fair value accurately reflects the value of these investments and is a preferable method of accounting for these investments and records the change in fair value in net investment return in the consolidated statements of activities.

In addition, the following table summarizes the carrying value and fair value of the Museum's other financial instruments at June 30, 2016:

	<u>Carrying Value</u>	<u>Fair Value</u>
Assets:		
Cash and cash equivalents	\$ 1,027,001	\$ 1,027,001
Contributions receivable, net	2,441,372	2,344,275
Other receivable, net	2,877,538	2,877,538
Accrued investment income	113,001	113,001
Liabilities:		
Accounts payable	998,546	998,546
Accrued expenses	6,211,245	6,211,245
Revolving line of credit payable	2,885,000	2,885,000
Note payable	985,715	985,715
Deferred revenue	1,466,587	1,466,587
Liability on annuity contracts	246,152	306,481

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, other receivables, accrued investment income, accounts payable, accrued expenses, and deferred revenue: Valued at carrying value, which approximates fair value due to the short-term nature of these instruments.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Contributions receivable: Valued based on the present value of the expected cash flows from estimated collections discounted at a rate commensurate with the risks involved.

Revolving line of credit payable: Valued by reference to published yield curves for variable interest rates which are marked to market daily.

Liability on annuity contracts: Valued based on the present value of the expected cash flows from collections discounted at a rate commensurate with the risks involved.

Note payable: Valued by reference to published yield curves for variable interest rates which are marked to market daily.

The methods described above could produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

15. ENDOWMENT

The Museum's endowment consists of individual endowment funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments, including donor-restricted charitable gift annuities.

Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Unrestricted endowment funds represent the Board-designated endowment.

Interpretation of Relevant Law

The Board of Trustees of the Museum has interpreted UPMIFA, adopted by the State of Texas, as allowing the Museum, absent donor stipulations to the contrary as stated in the gift instrument, to appropriate so much of a donor-restricted endowment fund as the Museum determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. The Board of Trustees passed a resolution adopting UPMIFA as enacted by the State of Texas. The assets in the endowment fund remain restricted until appropriated for expenditure by the Museum.

The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds: 1) the duration and preservation of the fund; 2) the purposes of the Museum and the donor-restricted endowment fund; 3) general economic conditions; 4) the possible effect of inflation and deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the Museum; and 7) the investment policies of the Museum.

Endowment Net Asset Composition by Type of Fund at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-restricted endowment funds	\$ 8,390,233	\$ -	\$ -	\$ 8,390,233
Donor-designated endowment funds	-	30,627,930	135,250,454	165,878,384
Total funds	<u>\$ 8,390,233</u>	<u>\$ 30,627,930</u>	<u>\$ 135,250,454</u>	<u>\$ 174,268,617</u>

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. ENDOWMENT (Continued)

Changes in Endowment Net Assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of period	\$ 8,938,310	\$ 42,310,310	\$ 134,409,067	\$ 185,657,687
Investment return:				
Investment income	148,086	2,927,823	-	3,075,909
Net depreciation (unrealized and realized)	<u>(365,012)</u>	<u>(7,103,519)</u>	<u>-</u>	<u>(7,468,531)</u>
Total investment return	(216,926)	(4,175,696)	-	(4,392,622)
Contributions	-	-	551,387	551,387
Transfers between endowment funds	75,000	-	290,000	365,000
Appropriation of endowment assets for expenditure	(391,468)	(7,221,543)	-	(7,613,011)
Appropriation of endowment assets spent due to purpose restriction	<u>(14,683)</u>	<u>(285,141)</u>	<u>-</u>	<u>(299,824)</u>
Endowment net assets, end of period	<u>\$ 8,390,233</u>	<u>\$ 30,627,930</u>	<u>\$ 135,250,454</u>	<u>\$ 174,268,617</u>

Funds with Deficiencies

From time to time the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor under UPMIFA requires the Museum to retain as a fund of perpetual duration. These deficiencies can result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs deemed prudent by the Board of Trustees. There were no funds with deficiencies at June 30, 2016.

Return Objective and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to operations, programs, and other specified purposes supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowments include those assets of donor-restricted funds that the Museum must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds.

Strategies Employed for Achieving Objectives

Under its investment policy, as approved by the Board of Trustees, the assets of the endowment are invested in accordance with the following objectives: achieve a long-term real return to provide a stable source of support for the financial needs of the Museum, while preserving the purchasing power of the underlying assets; generate, over a long period of time, a total investment return equal to or greater than the annual distribution rate plus the rate of inflation as measured by the Consumer Price Index; maximize return within reasonable and prudent levels of risk; and maintain sufficient liquidity to meet distribution needs on a timely basis.

While there are no assurances that these objectives will be realized, guidelines for endowment investments were developed using estimates of future gifts and expenditures by the endowment and on projected investment returns by asset class. Endowment objectives were based on a 10-year investment horizon, so interim fluctuations should be viewed with appropriate perspective.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The endowment's investment earnings are allocated in a reasonable and balanced way between current distribution and reinvestment for future earnings. Distributions should provide a reasonably stable and predictable source of funds for the activities of the Museum that are supported by the endowment. Subject to UPMIFA (to the extent applicable), the annual distributable funds from the endowment will be 5% of the average end-of-quarter market value of the endowment for the previous twelve (12) quarters, to be determined at the end of each year for the ensuing year. Total distributions from these funds to operations were \$7,613,011 for the year ended June 30, 2016. Gifts received are subject to the averaging and distribution rules, unless the donor directs differently. New gifts received are withheld from the distributable funds calculation until they have been held by the Museum for four quarters. Specific gifts may be excluded from averaging and/or be subject to other distribution rules, when donors so direct. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

16. COMMITMENTS

Leases

The Museum leases office equipment under various non-cancelable operating lease agreements. It is expected that as current leases expire they will be replaced by new leases. Future minimum lease commitments are payable as follows for the years ending June 30:

2017	\$	113,916
2018		113,916
2019		113,916
2020		<u>85,437</u>
	\$	<u>427,185</u>

Rent expense for the year ended June 30, 2016 was \$168,602.

17. RELATED PARTY TRANSACTIONS

The Museum has received contributions, other than artwork, of approximately \$5,779,000 for the year ended June 30, 2016 from various related parties, which includes members of the Board of Trustees.

A member of the Board of Trustees is also on the Board of Trustees of an unrelated not-for-profit organization. The unrelated not-for-profit organization holds an annual art auction. During the year ended June 30, 2016, a portion of the net proceeds were contributed to the Museum in the amount of \$3,709,000.

Certain Board members are owners or directors of certain entities that are vendors to the Museum. During the year ended June 30, 2016, the Museum paid approximately \$80,000 to these vendors, and received in-kind services of approximately \$384,000.

18. CONCENTRATIONS

Within other accounts receivable, approximately 97% of the amount owed to the Museum at June 30, 2016 relates to capitalized legal costs stemming from shared joint expenses in defending claims to works of art. Approximately 94% of gross pledges receivable at June 30, 2016 are from two donors.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. RETIREMENT PLAN

Effective April 1, 2015, the Museum offered a 401(k) retirement plan (the "Plan"). The Plan covers employees who have completed one year of service and have worked 1,000 hours. Museum contributions are voluntary and at the discretion of management. The Museum contribution for the Plan for the year ended June 30, 2016 was \$365,421.

20. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 11, 2016, the date the consolidated financial statements were available to be issued.

SUPPLEMENTAL SCHEDULE

Dallas Museum of Art
SCHEDULE OF ENDOWMENT FUNDS
June 30, 2016

Endowment funds include both donor-restricted and board-designated funds and earnings thereon which have not yet been expended for the purposes stipulated by the donor or board. The endowment funds are comprised of the following as of June 30, 2016:

	Total Net Assets
Acquisitions Endowment Funds	
Marguerite and Robert Hoffman Endowment	\$ 13,816,023
Cecil and Ida Green Art Acquisition Fund	4,107,781
Amelia Lay Hodges Acquisition Fund	3,203,612
General Acquisitions Endowment Fund	2,426,497
Decorative Arts Discretionary Endowment Fund	2,118,680
Roberta Coke Camp Endowment Fund	1,695,467
African Art Acquisitions Endowment Fund	1,397,562
Gayle and Paul Stoffel Fund for Contemporary Art Acquisition	1,267,917
Textile Acquisitions Endowment Fund	954,267
Otis and Velma Davis Dozier Endowment Fund	478,674
Beatrice M. and Patrick E. Haggerty Endowment Fund	415,541
Mary Margaret Munson Wilcox Fund	336,254
E.E. Fogelson and Greer Garson Fogelson Charitable Fund	301,156
Charron and Peter Denker Fund for Contemporary Texas Art	299,740
Theodore and Iva Hochstim Endowment Fund	192,494
Texas Artists Endowment Fund	171,768
Laura and Walter Elcock Contemporary Art Endowment Fund	124,224
Susan Mead Contemporary Art Acquisition Endowment Fund	120,821
Total Acquisitions	33,428,478
Exhibition, Curatorial, and Conservation Endowment Funds	
Exhibition Endowment Fund	15,853,274
The Hoffman Family Senior Curator of Contemporary Art	4,628,630
Marguerite and Robert Hoffman Operating Fund	3,400,000
Modern and Contemporary Sculpture Endowment Fund	3,000,809
Pauline G. Sullivan Curator of American Art Endowment Fund	2,450,972
Cecil and Ida Green Curator of Ancient and South Asian Art	2,450,684
The Ellen and Harry S. Parker III Curator of the Arts of the Americas and the Pacific	2,400,422
Margaret McDermott Curator of African Art Endowment Fund	2,334,959
The Nancy & Tim Hanley Associate Curator of Contemporary Art	1,829,300
Melba Davis Whatley Endowment Fund	1,814,700
Margot B. Perot Curator of Decorative Arts and Design Fund	1,312,759
Barbara Thomas Lemmon Curator of European Art Endowment Fund	1,251,804
Lillian Clark Curatorship for Paintings and Sculpture	1,196,769
Lupe Murchison Curator of Contemporary Art Endowment Fund	1,157,134
The John Wilcox Contemporary Art Exhibition Endowment Fund	1,077,276
NEH Chief Conservator	880,850
Lupe Murchison Curator of Contemporary Art Match Fund	622,939
Rosine Foundation Decorative Art Endowment Fund	596,975
Conservation Endowment Fund	556,230
Howard and Fanchon Hallam Endowment for Contemporary Art	491,641
Steven G. Alpert and Family Indonesian Art Fund	366,663
Charles Dee Mitchell Photography Fund	135,861
Exhibitionists Endowment Fund	131,472
The Graham Williford Foundation for American Art Endowment	8
Total Exhibition, Curatorial, and Conservation	49,942,131

See Report of Independent Certified Public Accountants.

Dallas Museum of Art
SCHEDULE OF ENDOWMENT FUNDS (Continued)
June 30, 2016

Education Endowment Funds	
McDermott Education Endowment Fund	\$ 3,632,792
The Kelli and Allen Questrom Director of the Center for Creative Connections	2,632,962
DMA League Director of Education Endowment Fund	2,547,297
Mayer Library Endowment Fund	2,540,195
Office of Digital Archivist	2,530,033
Anonymous Program Endowment Fund	1,888,977
The Bonnie Pitman Education Endowment to Do Something New	1,500,000
Education Endowment Fund for Interpretation	1,357,490
Pollock Foundation Education Endowment Fund	1,226,986
The Alex, Charlie, Grey, Jack and Rosey Fund	1,222,235
Mildred R. and Frederick M. Mayer Librarian Endowment Fund	1,217,411
Robert J. O'Donnell Endowment Fund	852,272
Gayle Hysinger Endowment Fund for Education	638,750
Nancy Cain Marcus Education Endowment Fund	613,733
Freeman Family Endowment Fund	613,055
Jeffrey A. Marcus Education Endowment Fund	612,861
Anonymous Endowment Fund	604,332
Boshell Lecture Series Endowment Fund	579,167
Rosewood Corporation Teacher Education Fund	562,810
Prothro Education Endowment Fund	556,851
The Martha McCarty Kimmerling Fund for Education	507,781
William Randolph Hearst Endowment Fund for Education Programs	435,859
Christopher and Sue Bancroft Education Endowment Fund	402,045
Marilyn R. and Leo F. Corrigan, Jr. Endowment Fund	350,948
Dr. Anson L. Clark Endowment Fund	337,883
Arch and Anne Giles Kimbrough Endowment Fund	323,701
Bank of America Education and Outreach Endowment Fund	320,740
Selma Parrill Children's Education Endowment Fund	246,198
Andrea Brenner-McMullen Arts Support Endowment Fund	244,431
Kay Cattarulla Endowment Fund for Literary and Performing Arts	237,366
Clara and Leo Corrigan, Sr. Endowment Fund	228,210
JC Penney Teaching Resource Center Endowment Fund	200,273
Albert and Minnie Susman Education Endowment Fund	192,720
King Foundation Education Endowment Fund	192,696
Jane Du Pont and Barron U. Kidd Endowment	170,000
Dozier Travel Endowment Fund	168,489
Bromberg Endowment Fund	158,860
Brettell Lecture Series Endowment Fund	148,181
Shirley Philipson Pollock Internship in Art Librarianship Endowment	146,531
DeGolyer Endowment Fund	144,225
Levy Endowment Fund for Music	133,959
Nancy and Jeffrey Marcus Endowment Fund	125,407
Karen and Richard Pollock Endowment Fund	122,171
Collins Lecture Series Endowment Fund	119,608
Hobson Education Endowment Fund	119,249
Betty Moroney Norsworthy Endowment Fund	118,974
Education Endowment Fund	113,042
Arthur Andersen Education Endowment Fund	105,234
McGee Endowment for Arts & Letters Live	100,000
Rick and Diana Strauss Special Education Endowment	32,253

See Report of Independent Certified Public Accountants.

Dallas Museum of Art
SCHEDULE OF ENDOWMENT FUNDS (Continued)
June 30, 2016

Education Endowment Funds (Continued)	
Gateway Gallery Endowment Fund	\$ 25,078
Print and Drawing Endowment Fund	17,200
Total education endowment funds	<u>34,219,521</u>
Operations and Other Specified Purpose Endowment Funds	
Expansion Campaign Endowment Fund	13,628,667
Family Fund Endowment Fund	9,705,407
Perot Fund	4,292,612
Edward W. and Deedie Rose Endowment	4,239,883
The Eugene McDermott Director's Endowment	4,196,202
Fannie and Stephen Kahn Fund	3,418,378
Edmund J. and Louise W. Kahn Endowment Fund	3,177,396
Anonymous Endowment Fund	2,370,130
McDermott Challenge Endowment	1,839,400
Program Endowment Fund	1,238,333
Anonymous Endowment Fund	1,170,150
McDermott Garden Endowment Fund	1,098,266
Sarah M. & Charles E. Seay Fund in honor of Jack R. Munger	868,067
Anne Marie & Thomas Walker Fund	856,087
NEA Challenge Grant Endowment Fund	699,384
DMA League Museum Beautification Endowment Fund	548,006
The Clarence and Ruth Roy Endowment Fund	509,486
Anonymous Director's Assistants Endowment Fund	490,205
Ernest and Irene Wadel Endowment Fund	426,172
Frank and Binswanger Fresh Flower Fund	387,878
S. T. Harris Endowment Fund	365,294
Fay and Newt Walker Endowment Fund	320,354
Shirley Pollock Endowment Fund	230,822
General Operations Endowment Fund	225,735
Harry and Ellen Parker Endowment Fund	219,615
Patsy Nasher Endowment Fund	125,243
Fleischner Courtyard Maintenance Endowment Fund	31,315
Total operations and other specified purpose endowment funds	<u>56,678,487</u>
Total endowment funds	<u>\$ 174,268,617</u>
Permanently restricted net assets	\$ 135,250,454
Temporarily restricted net assets	55,236,479
Less temporarily restricted net assets for specified purposes and purchases of fixed assets	(24,608,549)
Unrestricted net assets	7,294,104
Unrestricted, undesignated operating funds	<u>1,096,129</u>
	<u>\$ 174,268,617</u>

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