

DALLAS MUSEUM OF ART
CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
JUNE 30, 2017

DALLAS MUSEUM OF ART

JUNE 30, 2017

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LANE GORMAN TRUBITT, LLC
Accountants & Advisors

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, 2017, 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, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2017 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 14, 2017

Dallas Museum of Art
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS

Cash and cash equivalents	\$	2,138,088
Investments, at fair value		208,296,656
Contributions receivable, net		1,017,522
Other receivables, net		3,109,442
Accrued investment income		122,987
Inventories, net		611,950
Prepaid expenses and deposits		1,270,250
Beneficial interest in trusts		68,288
Books, net		552,848
Property and equipment, net		<u>12,333,726</u>
Total assets	\$	<u><u>229,521,757</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$	1,535,227
Accrued expenses		5,344,293
Revolving line of credit payable		2,885,000
Deferred revenue		869,341
Liability on annuity contracts		222,421
Note payable		<u>814,287</u>
Total liabilities		<u><u>11,670,569</u></u>

NET ASSETS

Unrestricted		9,357,410
Temporarily restricted		72,413,002
Permanently restricted		<u>136,080,776</u>
Total net assets		<u><u>217,851,188</u></u>

Total liabilities and net assets	\$	<u><u>229,521,757</u></u>
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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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support				
Appropriations from the City of Dallas	\$ 1,075,896	\$ -	\$ -	\$ 1,075,896
Contributed services	5,580,449	-	-	5,580,449
Contributions	6,316,710	-	-	6,316,710
Government grants	84,622	71,142	-	155,764
Total support	13,057,677	71,142	-	13,128,819
Revenue				
Auxiliary activities	4,873,091	-	-	4,873,091
Education	570,710	-	-	570,710
Miscellaneous	93,371	113,114	-	206,485
Total revenue	5,537,172	113,114	-	5,650,286
Other support and revenue				
Gifts—other than art	2,607,832	4,759,363	830,347	8,197,542
Net investment return	1,298,734	25,661,089	-	26,959,823
Total other support and revenue	3,906,566	30,420,452	830,347	35,157,365
Net assets released from restrictions	9,130,148	(9,130,123)	(25)	-
Total support and revenue	31,631,563	21,474,585	830,322	53,936,470
Expenses				
Collections and exhibitions	12,518,475	-	-	12,518,475
Education	3,408,969	-	-	3,408,969
External affairs and development	5,026,839	-	-	5,026,839
General and administration	7,658,716	-	-	7,658,716
Auxiliary activities	1,870,948	-	-	1,870,948
Additional minimum pension asset	(983,690)	-	-	(983,690)
Total expenses	29,500,257	-	-	29,500,257
Change in net assets before change related to				
collection items not capitalized	2,131,306	21,474,585	830,322	24,436,213
Collection items sold	-	-	-	-
Collection items purchased	(68,000)	(4,298,062)	-	(4,366,062)
Change in net assets	2,063,306	17,176,523	830,322	20,070,151
Net assets at beginning of fiscal year	7,294,104	55,236,479	135,250,454	197,781,037
Net assets at end of fiscal year	\$ 9,357,410	\$ 72,413,002	\$ 136,080,776	\$ 217,851,188

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

Dallas Museum of Art
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2017

Cash flows from operating activities:	
Change in net assets	\$ 20,070,151
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Bad debt expense	2,025
Depreciation and amortization	1,284,073
Net realized and unrealized gains on investments	(23,619,994)
Contributions restricted for long-term investments	(4,943,244)
Purchases of owned art collection	4,366,062
Change in operating assets and liabilities, net:	
Contributions and other receivables, net	1,189,921
Accrued investment income	(9,986)
Inventories, net	160,926
Prepaid expenses and deposits	148,706
Accounts payable	536,681
Accrued expenses	(866,952)
Deferred revenue	(597,246)
Liability on annuity contracts	(23,731)
Net cash used in operating activities	<u>(2,302,608)</u>
 Cash flows from investing activities:	
Purchases of books, property, and equipment	(513,898)
Proceeds from sales of investments	31,695,337
Purchases of owned art collection	(4,366,062)
Purchases of investments	(28,173,498)
Net cash used in investing activities	<u>(1,358,121)</u>
 Cash flows from financing activities:	
Proceeds from contributions restricted for:	
Investment in endowment	830,348
Investment in plant	4,112,896
Payments on note payable	(171,428)
Net cash provided by financing activities	<u>4,771,816</u>
 Increase in cash and cash equivalents	1,111,087
Cash and cash equivalents at beginning of year	<u>1,027,001</u>
Cash and cash equivalents at end of year	<u>\$ 2,138,088</u>
 Supplemental cash flow disclosure:	
Cash paid for interest	\$ 76,831

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, 2017. 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 Receivable

Contributions receivable 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 writes off receivables when deemed uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. At June 30, 2017 management feels that all outstanding amounts are fully collectible. As such there is no allowance for doubtful accounts.

Other Receivables

Other receivables include \$2,778,980 for legal fees incurred for litigation to protect the Museum's interests related to art bequeathed by a donor and now in the Museum's possession and matters related to disputes with foreign taxing authorities over various taxes on real estate formerly owned by the donor. These matters are complex and have been the subject of litigation for approximately ten years. One important litigation matter was decided in the Museum's favor subsequent to year end (see notes 16 and 20). Management believes this receivable will be fully collected, but due to the complexities of these matters is unable to predict the ultimate outcome or the amount that will be collected.

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 \$47,777 at June 30, 2017.

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 Art Fund. 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, 2017, the Museum has approximately \$321,688,523 (unaudited) 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 228 individual objects to the collection during the year ended June 30, 2017 through gifts, transfers or purchases. The Museum purchased and expensed 53 individual objects during the year ended June 30, 2017. There were no deaccessions during the year ended June 30, 2017.

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, 2017 there was one annuity which was calculated using a discount rate of 7.2%. During the year ended June 30, 2017 the liability on annuity contract decreased by \$23,731.

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 of 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. In addition to providing free general admission for all visitors, the Museum offers memberships to further visitor engagement. 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 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, 2017. 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 \$8,095 of income taxes on unrelated business income during the year ended June 30, 2017. 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 2014.

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.

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, 2017:

Short-term investments	\$ 562,258
Equity securities	145,302,928
Corporate bonds and other debt securities	28,204,704
Alternative investments	34,226,766
	<u>\$ 208,296,656</u>

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. INVESTMENTS (Continued)

The following summarizes total net investment return:

Dividends and interest income	\$ 3,339,829
Net realized gain on investments	4,625,625
Net unrealized gain on investments	<u>18,994,369</u>
Total net investment return	<u>\$ 26,959,823</u>

Investment fees and expenses are approximately \$48,000 for the year ended June 30, 2017.

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, 2017:

Specified purpose	\$ 710,000
Operating	<u>323,356</u>
	1,033,356
Less unamortized discount	<u>(15,834)</u>
Contributions receivable, net	<u>\$ 1,017,522</u>

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

Contributions receivable expected to be collected in:

Less than one year	\$ 833,356
One to five years	200,000
After five years	<u>-</u>
	<u>\$ 1,033,356</u>

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, 2017:

Furniture, fixtures, and improvements	\$ 19,720,365
Equipment and software	<u>2,685,344</u>
	22,405,709
Less accumulated depreciation and amortization	<u>(10,099,952)</u>
	12,305,757
Construction in progress	<u>27,969</u>
	<u>\$ 12,333,726</u>

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. PROPERTY AND EQUIPMENT (Continued)

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 2018 and may be drawn on (subject to availability) or repaid at any time. All advances under the line are unsecured. As of June 30, 2017, \$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, 2017 which was 2.372%. 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, 2017.

7. NOTE PAYABLE

On April 3, 2015 the Museum 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, 2017 was 2.072%. The note matures April 3, 2022 and is secured by certain investments held in U.S. equity securities. At June 30, 2017 the fair value of these investments was approximately \$2,305,914. 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, 2017. Future scheduled maturities of the note are as follows:

Years ending June 30,:

2018	\$	171,428
2019		171,428
2020		171,428
2021		171,428
2022		128,575
Thereafter		-
		<u>814,287</u>

8. RESTRICTIONS ON NET ASSETS

Permanently restricted net assets consist of funds which are available to support the following purposes at June 30, 2017:

Operations and other	\$	41,151,796
Education		25,708,974
Exhibitions, curatorial, and conservation		43,492,863
Acquisitions		25,727,143
		<u>136,080,776</u>

Temporarily restricted net assets are restricted to support the following purposes at June 30, 2017:

Operations and other	\$	18,250,616
Education		16,254,496
Exhibitions, curatorial, and conservation		19,554,867
Acquisitions		18,353,023
		<u>72,413,002</u>

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2017 are as follows:

Operations and other	\$ 3,303,372
Education	2,944,674
Exhibitions, curatorial, and conservation	2,803,564
Acquisitions	78,538
	\$ 9,130,148

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.

The following table sets out the Plan's funded status as of June 30, 2017:

Actuarial present value of projected benefit obligation:	
Projected benefit obligation	\$ (12,303,857)
Plan assets at fair value	9,068,027
Net statement of financial position liability	\$ (3,235,830)
Unrestricted net assets:	
Net loss	\$ 4,573,998
Additional minimum liability	\$ 4,573,998
Employer contributions	\$ -
Benefits paid	\$ 433,946
Net period benefit cost	\$ 290,189

An unfunded pension benefit obligation was recognized by the Museum as of June 30, 2017 due to the unfunded status of the projected benefit obligation. The unfunded status as of June 30, 2017 of \$3,235,830, is included within accrued expenses in the consolidated statement of financial position. The accumulated benefit obligation as of June 30, 2017 was \$12,303,857.

Assumptions Used in Determining Net Period Benefit Cost

The weighted average discount rate used in determining the net period benefit cost for June 30, 2017 was 3.85%. There was no weighted average compensation increase for June 30, 2017. The expected long-term rate of return on plan assets was 7.5% for June 30, 2017.

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, 2017 and 2016 was 3.85% and 3.62%, respectively. There was no weighted average compensation increase for June 30, 2017. The expected long-term rate of return on plan assets was 7.5% for the years ended June 30, 2017 and 2016, respectively.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. PENSION PLAN (Continued)

Assumptions Used in Determining Projected Benefit Obligations (Continued)

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 2017 Gallagher Fiduciary Advisors Investment Model provides a weighted average expected return of 5.81% with standard deviation of 11.73%. The estimated probability distributions of geometric returns for 20 years show that the 40th percentile is 7.5%.

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

2018	\$	542,000
2019		525,000
2020		565,000
2021		552,000
2022		542,000
2023 through 2027		<u>2,961,000</u>
	\$	<u>5,687,000</u>

Plan assets are allocated as follows at June 30, 2017:

Equity securities:		
Pooled, common and collective funds		73.6%
Fixed income securities:		
Pooled, common and collective funds		17.9%
Other:		
Real estate funds		<u>8.5%</u>
Total plan assets		<u>100.0%</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, 2017:

	<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	\$ 29	\$ 29	\$ -	\$ -
Total assets in fair value hierarchy	<u>29</u>	<u>29</u>	<u>-</u>	<u>-</u>
Pooled separate account funds (b)				
Total investments at fair value	<u>9,067,998</u>			
	<u>\$ 9,068,027</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.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. PENSION PLAN (Continued)

Assumptions Used in Determining Projected Benefit Obligations (Continued)

- (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.

11. EXPENSES

Expenses consist of the following for the year ended June 30, 2017:

Program expenses	\$ 15,927,445
General and administrative	6,675,025
Supporting services	3,314,789
Fundraising	3,582,998
Total expenses	<u>\$ 29,500,257</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 \$3,447,663 for the year ended June 30, 2017. The Museum received an additional \$2,132,786 of contributed goods and services from other sources during the year ended June 30, 2017.

13. ADVERTISING EXPENSES

During the year ended June 30, 2017, the Museum incurred approximately \$720,000, 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:

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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.

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, 2017:

	<u>Carrying Amount</u>	<u>Measured at Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:					
Equity securities	\$ 145,302,928	\$ 145,302,928	\$145,302,928	\$ -	\$ -
Mutual funds—fixed income	14,084,642	14,084,642	14,084,642	-	-
Short-term investments	<u>562,258</u>	<u>562,258</u>	<u>562,258</u>	-	-
Total assets in fair value hierarchy	159,949,828	159,949,828	<u>\$159,949,828</u>	<u>\$ -</u>	<u>\$ -</u>
Other fixed income (a)	14,120,062	14,120,062			
Alternative investments (a)	<u>34,226,766</u>	<u>34,226,766</u>			
Total investments at fair value	<u>\$ 208,296,656</u>	<u>\$ 208,296,656</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:

	<u>Split-interest Agreements</u>
Ending balance, June 30, 2016	\$ 68,288
Total gains (losses):	
Included in realized/unrealized	-
Purchases, issuances, and redemptions, net	-
Ending balance, June 30, 2017	<u>\$ 68,288</u>

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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.

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 (2017)	\$ 34,226,766	\$ -	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, 2017:

	<u>Carrying Value</u>	<u>Fair Value</u>
Assets:		
Cash and cash equivalents	\$ 2,138,088	\$ 2,138,088
Contributions receivable, net	1,017,522	1,027,984
Other receivable, net	3,109,442	3,109,442
Accrued investment income	122,987	122,987
Liabilities:		
Accounts payable	1,535,227	1,535,227
Accrued expenses	5,344,293	5,344,293
Revolving line of credit payable	2,885,000	2,885,000
Note payable	814,287	814,287
Deferred revenue	869,341	869,341
Liability on annuity contracts	222,421	281,992

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Cash and cash equivalents, 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.

Contributions receivable and other receivables: 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 at carrying value in conjunction with a variable interest rate indicative of risks associated with the line of credit.

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 at carrying value in conjunction with a fixed interest rate indicative of risks associated with the note.

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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-restricted endowment funds	\$ 9,283,470	\$ -	\$ -	\$ 9,283,470
Donor-designated endowment funds	-	48,561,001	136,080,776	184,641,777
Total funds	<u>\$ 9,283,470</u>	<u>\$ 48,561,001</u>	<u>\$ 136,080,776</u>	<u>\$ 193,925,247</u>

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. ENDOWMENT (Continued)

Changes in Endowment Net Assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of period	\$ 8,390,233	\$ 30,627,930	\$ 135,250,454	\$ 174,268,617
Investment return:				
Investment income	160,259	3,179,570	-	3,339,829
Net appreciation (unrealized and realized)	<u>1,139,133</u>	<u>22,482,311</u>	<u>-</u>	<u>23,621,444</u>
Total investment return	1,299,392	25,661,881	-	26,961,273
Contributions	-	-	830,347	830,347
Reclassification between endowment funds	25,000	-	(25)	24,975
Appropriation of endowment assets for expenditure	(414,747)	(7,402,956)	-	(7,817,703)
Appropriation of endowment assets spent due to purpose restriction	<u>(16,408)</u>	<u>(325,854)</u>	<u>-</u>	<u>(342,262)</u>
Endowment net assets, end of period	<u>\$ 9,283,470</u>	<u>\$ 48,561,001</u>	<u>\$ 136,080,776</u>	<u>\$ 193,925,247</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, 2017.

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 \$7,817,703 for the year ended June 30, 2017. 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 AND CONTINGENCIES

Leases

The Museum leases office equipment and an automobile 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,:

2018	\$	119,856
2019		119,856
2020		<u>90,387</u>
	\$	<u>330,099</u>

Rent expense for the year ended June 30, 2017 was \$116,717.

Litigation

The Museum is involved in litigation surrounding the receipt of artifacts from the estate of a donor. As of June 30, 2017, it is not possible to determine if there is a loss potential or what that amount might be. The Museum has retained legal counsel and is vigorously defending its claim. See Note 20 for subsequent events regarding this litigation.

17. RELATED PARTY TRANSACTIONS

The Museum has received contributions, other than artwork, of approximately \$4,962,000 for the year ended June 30, 2017 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, 2017, a portion of the net proceeds were contributed to the Museum in the amount of \$2,665,000.

Certain board members are owners or directors of certain entities that are vendors to the Museum. During the year ended June 30, 2017, the Museum received in-kind services of approximately \$159,000 from these vendors.

A member of the Board of Trustees is also the Managing Director at an affiliate of Bank of America, N.A. During the year ended June 30, 2017, the Museum utilized \$2,885,000 of the \$5 million line of credit granted. The Museum also has a note payable through Bank of America, N.A. amounting to \$814,287 as of June 30, 2017 that will mature in 2022. The line of credit and note payable are disclosed in further detail in notes 6 and 7 above.

The Museum has received contributions, other than artwork, of approximately \$200,000 for the year ended June 30, 2017 from certain entities where a board member serves as the senior vice president for that entity.

Dallas Museum of Art
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. CONCENTRATIONS

Within other accounts receivable, approximately 89% of the amount owed to the Museum at June 30, 2017 relates to capitalized legal costs stemming from shared joint expenses in defending claims to works of art. Approximately 68% of gross pledges receivable at June 30, 2017 are from two donors.

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, 2017 was \$364,655.

20. SUBSEQUENT EVENTS

On September 27, 2017 the French supreme court (Cour de Cassation) rejected a claim from an heir of a decedent's estate to have donated art repatriated back to France, exhausting the heir's appeals. The judgment excludes the artifacts from the donor's estate, and the Museum retains them as part of their collection.

Management has evaluated subsequent events through November 14, 2017, the date the consolidated financial statements were available to be issued.

SUPPLEMENTAL SCHEDULE

Dallas Museum of Art
SCHEDULE OF ENDOWMENT FUNDS
June 30, 2017

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, 2017:

	<u>Total Net Assets</u>
Acquisitions Endowment Funds	
Marguerite and Robert Hoffman Endowment	\$ 15,239,227
Cecil and Ida Green Art Acquisition Fund	4,530,928
Amelia Lay Hodges Acquisition Fund	3,628,947
General Acquisitions Endowment Fund	2,676,454
Decorative Arts Discretionary Endowment Fund	2,339,019
Roberta Coke Camp Endowment Fund	1,870,119
African Art Acquisitions Endowment Fund	1,541,526
Gayle and Paul Stoffel Fund for Contemporary Art Acquisition	1,398,527
Textile Acquisitions Endowment Fund	1,053,633
Otis and Velma Davis Dozier Endowment Fund	527,983
Beatrice M. and Patrick E. Haggerty Endowment Fund	458,347
Mary Margaret Munson Wilcox Fund	370,892
E.E. Fogelson and Greer Garson Fogelson Charitable Fund	332,179
Charron and Peter Denker Fund for Contemporary Texas Art	330,616
Theodore and Iva Hochstim Endowment Fund	212,323
Texas Artists Endowment Fund	189,462
Laura and Walter Elcock Contemporary Art Endowment Fund	137,020
Susan Mead Contemporary Art Acquisition Endowment Fund	133,267
Total Acquisitions	36,970,469
Exhibition, Curatorial, and Conservation Endowment Funds	
Exhibition Endowment Fund	17,486,339
The Hoffman Family Senior Curator of Contemporary Art	5,191,815
Marguerite and Robert Hoffman Operating Fund	3,893,197
Modern and Contemporary Sculpture Endowment Fund	3,309,926
Pauline G. Sullivan Curator of American Art Endowment Fund	2,703,449
Cecil and Ida Green Curator of Ancient and South Asian Art	2,703,132
The Ellen and Harry S. Parker III Curator of the Arts of the Americas and the Pacific	2,647,692
Margaret McDermott Curator of African Art Endowment Fund	2,575,486
The Nancy & Tim Hanley Associate Curator of Contemporary Art	2,044,103
Melba Davis Whatley Endowment Fund	2,001,634
Margot B. Perot Curator of Decorative Arts and Design Fund	1,452,951
Barbara Thomas Lemmon Curator of European Art Endowment Fund	1,390,642
Lillian Clark Curatorship for Paintings and Sculpture	1,320,037
Lupe Murchison Curator of Contemporary Art Endowment Fund	1,337,992
The John Wilcox Contemporary Art Exhibition Endowment Fund	1,244,910
NEH Chief Conservator	1,666,096
Lupe Murchison Curator of Contemporary Art Match Fund	720,303
Rosine Foundation Decorative Art Endowment Fund	659,785
Conservation Endowment Fund	613,528
Howard and Fanchon Hallam Endowment for Contemporary Art	542,286
Steven G. Alpert and Family Indonesian Art Fund	437,513
Charles Dee Mitchell Photography Fund	157,366
Exhibitionists Endowment Fund	145,015
Jean and Bill Booziotis Fund for Design and Architecture	150,000
Total Exhibition, Curatorial, and Conservation	56,395,197

See Report of Independent Certified Public Accountants.

Dallas Museum of Art
 SCHEDULE OF ENDOWMENT FUNDS (Continued)
 June 30, 2017

Education Endowment Funds	
McDermott Education Endowment Fund	\$ 4,006,980
The Kelli and Allen Questrom Director of the Center for Creative Connections	3,044,508
DMA League Director of Education Endowment Fund	2,831,426
Mayer Library Endowment Fund	2,801,863
Office of Digital Archivist	2,826,380
Anonymous Program Endowment Fund	2,083,564
The Bonnie Pitman Education Endowment to Do Something New	1,670,813
Education Endowment Fund for Interpretation	1,497,327
Pollock Foundation Education Endowment Fund	1,353,379
The Alex, Charlie, Grey, Jack and Rosey Fund	1,348,139
Mildred R. and Frederick M. Mayer Librarian Endowment Fund	1,342,818
Robert J. O'Donnell Endowment Fund	940,068
Gayle Hysinger Endowment Fund for Education	704,548
Nancy Cain Marcus Education Endowment Fund	676,954
Freeman Family Endowment Fund	676,207
Jeffrey A. Marcus Education Endowment Fund	675,994
Anonymous Endowment Fund	666,585
Boshell Lecture Series Endowment Fund	638,828
Rosewood Corporation Teacher Education Fund	620,786
Prothro Education Endowment Fund	614,213
The Martha McCarty Kimmerling Fund for Education	605,379
William Randolph Hearst Endowment Fund for Education Programs	480,759
Christopher and Sue Bancroft Education Endowment Fund	443,460
Marilyn R. and Leo F. Corrigan, Jr. Endowment Fund	387,102
Dr. Anson L. Clark Endowment Fund	372,690
Arch and Anne Giles Kimbrough Endowment Fund	357,045
Bank of America Education and Outreach Endowment Fund	353,780
Selma Parrill Children's Education Endowment Fund	271,559
Andrea Brenner-McMullen Arts Support Endowment Fund	274,798
Kay Cattarulla Endowment Fund for Literary and Performing Arts	263,132
Clara and Leo Corrigan, Sr. Endowment Fund	251,720
JC Penney Teaching Resource Center Endowment Fund	220,903
Albert and Minnie Susman Education Endowment Fund	212,575
King Foundation Education Endowment Fund	212,548
Jane Du Pont and Barron U. Kidd Endowment	189,977
Dozier Travel Endowment Fund	185,845
Bromberg Endowment Fund	175,224
Brettell Lecture Series Endowment Fund	163,445
Shirley Philipson Pollock Internship in Art Librarianship Endowment	161,626
DeGolyer Endowment Fund	159,081
Levy Endowment Fund for Music	147,761
Nancy and Jeffrey Marcus Endowment Fund	138,325
Karen and Richard Pollock Endowment Fund	134,759
Collins Lecture Series Endowment Fund	131,929
Hobson Education Endowment Fund	131,534
Betty Moroney Norsworthy Endowment Fund	131,233
Education Endowment Fund	125,347
Arthur Andersen Education Endowment Fund	116,075
McGee Endowment for Arts & Letters Live	112,865
Rick and Diana Strauss Special Education Endowment	35,576

See Report of Independent Certified Public Accountants.

Dallas Museum of Art
SCHEDULE OF ENDOWMENT FUNDS (Continued)
June 30, 2017

Education Endowment Funds (Continued)	
Gateway Gallery Endowment Fund	\$ 27,662
Print and Drawing Endowment Fund	18,971
Total education endowment funds	<u>38,016,065</u>
Operations and Other Specified Purpose Endowment Funds	
Expansion Campaign Endowment Fund	15,032,571
Family Fund Endowment Fund	10,702,728
Edward W. and Deedie Rose Endowment	4,676,639
The Eugene McDermott Director's Endowment	4,628,460
Fannie and Stephen Kahn Fund	3,770,511
Edmund J. and Louise W. Kahn Endowment Fund	3,504,703
Anonymous Endowment Fund	4,734,617
McDermott Challenge Endowment	2,028,881
Program Endowment Fund	1,365,895
Anonymous Endowment Fund	1,290,691
McDermott Garden Endowment Fund	1,211,400
Sarah M. & Charles E. Seay Fund in honor of Jack R. Munger	957,488
Anne Marie & Thomas Walker Fund	944,274
NEA Challenge Grant Endowment Fund	771,428
DMA League Museum Beautification Endowment Fund	633,402
The Clarence and Ruth Roy Endowment Fund	561,970
Anonymous Director's Assistants Endowment Fund	540,703
Ernest and Irene Wadel Endowment Fund	470,073
Frank and Binswanger Fresh Flower Fund	427,834
S. T. Harris Endowment Fund	402,924
Fay and Newt Walker Endowment Fund	353,356
Shirley Pollock Endowment Fund	254,601
General Operations Endowment Fund	248,989
Harry and Ellen Parker Endowment Fund	242,240
Patsy Nasher Endowment Fund	138,146
Fleischner Courtyard Maintenance Endowment Fund	34,542
Anonymous Endowment Fund	2,614,450
Total operations and other specified purpose endowment funds	<u>62,543,516</u>
Total endowment funds	<u>\$ 193,925,247</u>
Permanently restricted net assets	\$ 136,080,776
Temporarily restricted net assets	72,413,002
Less temporarily restricted net assets for specified purposes and purchases of fixed assets	(23,852,001)
Unrestricted net assets	9,357,410
Unrestricted, undesignated operating funds	(73,940)
	<u>\$ 193,925,247</u>

See Report of Independent Certified Public Accountants.