

# Consolidated Financial Statements and Report of Independent Certified Public Accountants

## **Dallas Museum of Art**

For the years ended June 30, 2019 and 2018



**LANE GORMAN TRUBITT, LLC**  
Accountants & Advisors

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DALLAS MUSEUM OF ART

JUNE 30, 2019 AND 2018

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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 statements of financial position as of June 30, 2019 and 2018, the related consolidated statements of activities and changes in net assets and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Endowment Funds as of June 30, 2019 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 18, 2019

Dallas Museum of Art  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 2,628,234	\$ 1,666,132
Investments, at fair value	230,147,658	222,645,384
Contributions receivable, net	16,015,707	4,587,227
Other receivables, net	2,887,690	2,638,519
Accrued investment income	186,987	152,799
Inventories, net	354,041	423,070
Prepaid expenses and deposits	2,617,800	1,066,030
Beneficial interest in trusts	68,288	68,288
Books, net	546,067	552,084
Property and equipment, net	10,508,114	11,370,135
Total assets	\$ 265,960,586	\$ 245,169,668
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 2,249,520	\$ 749,728
Accrued expenses	5,735,591	4,537,334
Revolving line of credit payable	2,385,000	2,385,000
Deferred revenue	570,023	817,892
Liability on annuity contracts	207,852	203,604
Note payable	471,431	642,859
Total liabilities	11,619,417	9,336,417
NET ASSETS		
Without donor restrictions	10,043,265	10,962,224
With donor restrictions		
Restricted by purpose or time	96,819,523	84,985,904
Restricted in perpetuity	147,478,381	139,885,123
	244,297,904	224,871,027
Total net assets	254,341,169	235,833,251
Total liabilities and net assets	\$ 265,960,586	\$ 245,169,668

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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support</b>			
Appropriations from the City of Dallas	\$ 1,071,396	\$ -	\$ 1,071,396
Contributed services	3,671,654	-	3,671,654
Exhibition support	71,701	-	71,701
Contributions	5,428,800	-	5,428,800
Government grants	<u>74,000</u>	<u>-</u>	<u>74,000</u>
Total support	10,317,551	-	10,317,551
<b>Revenue</b>			
Auxiliary activities	4,383,700	5,637	4,389,337
Education	823,777	-	823,777
Miscellaneous	<u>104,817</u>	<u>114,034</u>	<u>218,851</u>
Total revenue	5,312,294	119,671	5,431,965
<b>Other support and revenue</b>			
Gifts—other than art	2,283,445	27,786,443	30,069,888
Net investment return	<u>532,244</u>	<u>11,204,465</u>	<u>11,736,709</u>
Total other support and revenue	2,815,689	38,990,908	41,806,597
Net assets released from restrictions	<u>13,744,595</u>	<u>(13,744,595)</u>	<u>-</u>
Total support and revenue	<u>32,190,129</u>	<u>25,365,984</u>	<u>57,556,113</u>
<b>Expenses</b>			
Galleries and exhibitions	12,257,027	-	12,257,027
Collections	4,016,752	-	4,016,752
Education	4,030,481	-	4,030,481
Fundraising	6,116,440	-	6,116,440
General and administration	<u>6,438,388</u>	<u>-</u>	<u>6,438,388</u>
Total expenses	<u>32,859,088</u>	<u>-</u>	<u>32,859,088</u>
Change in net assets before change related to collection items not capitalized	(668,959)	25,365,984	24,697,025
Collection items purchased	<u>(250,000)</u>	<u>(5,939,107)</u>	<u>(6,189,107)</u>
Change in net assets	(918,959)	19,426,877	18,507,918
Net assets at beginning of fiscal year	<u>10,962,224</u>	<u>224,871,027</u>	<u>235,833,251</u>
Net assets at end of fiscal year	<u>\$ 10,043,265</u>	<u>\$ 244,297,904</u>	<u>\$ 254,341,169</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, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support</b>			
Appropriations from the City of Dallas	\$ 1,075,896	\$ -	\$ 1,075,896
Contributed services	3,948,679	-	3,948,679
Exhibition support	7,351	-	7,351
Contributions	5,555,858	-	5,555,858
Government grants	22,000	-	22,000
Total support	10,609,784	-	10,609,784
<b>Revenue</b>			
Auxiliary activities	5,512,367	3,225	5,515,592
Education	888,151	-	888,151
Miscellaneous	82,976	66,056	149,032
Total revenue	6,483,494	69,281	6,552,775
<b>Other support and revenue</b>			
Gifts—other than art	1,681,869	11,025,751	12,707,620
Net investment return	960,541	19,093,345	20,053,886
Total other support and revenue	2,642,410	30,119,096	32,761,506
Net assets released from restrictions	9,972,096	(9,972,096)	-
Total support and revenue	29,707,784	20,216,281	49,924,065
<b>Expenses</b>			
Galleries and exhibitions	9,921,501	-	9,921,501
Collections	4,037,436	-	4,037,436
Education	3,697,873	-	3,697,873
Fundraising	5,136,834	-	5,136,834
General and administration	5,309,326	-	5,309,326
Total expenses	28,102,970	-	28,102,970
<b>Change in net assets before change related to collection items not capitalized</b>			
Collection items sold	1,604,814	20,216,281	21,821,095
Collection items sold	-	883,333	883,333
Collection items purchased	-	(4,722,365)	(4,722,365)
Change in net assets	1,604,814	16,377,249	17,982,063
Net assets at beginning of fiscal year	9,357,410	208,493,778	217,851,188
Net assets at end of fiscal year	\$ 10,962,224	\$ 224,871,027	\$ 235,833,251

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

Dallas Museum of Art  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 18,507,918	\$ 17,982,063
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Bad debt expense	2,906	1,000
Depreciation and amortization	1,304,946	1,251,345
Net realized and unrealized gains on investments	(6,268,573)	(15,712,718)
Contributions restricted for long-term purposes	(12,337,169)	(7,257,604)
Collection items purchased	6,189,107	4,722,365
Collection items sold	-	(883,333)
Change in operating assets and liabilities, net:		
Contributions and other receivables, net	(11,680,557)	(3,099,782)
Accrued investment income	(34,188)	(29,812)
Inventories, net	69,029	188,880
Prepaid expenses and deposits	(1,551,770)	204,220
Accounts payable	1,499,792	(785,499)
Accrued expenses	1,198,257	(806,959)
Deferred revenue	(247,869)	(51,449)
Liability on annuity contracts	4,248	(18,817)
Net cash used in operating activities	(3,343,923)	(4,296,100)
Cash flows from investing activities:		
Purchases of books, property, and equipment	(436,908)	(286,990)
Proceeds from sales of investments	24,108,360	21,377,826
Purchases of collection items	(6,189,107)	(4,722,365)
Proceeds from sales of collection items	-	883,333
Purchases of investments	(25,342,061)	(20,013,836)
Net cash used in investing activities	(7,859,716)	(2,762,032)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	7,599,291	3,358,797
Investment in plant	4,737,878	3,898,807
Payments on the line of credit	-	(500,000)
Payments on note payable	(171,428)	(171,428)
Net cash provided by financing activities	12,165,741	6,586,176
Increase (decrease) in cash and cash equivalents	962,102	(471,956)
Cash and cash equivalents at beginning of year	1,666,132	2,138,088
Cash and cash equivalents at end of year	\$ 2,628,234	\$ 1,666,132
<b>Supplemental cash flow disclosure:</b>		
Cash paid for interest	\$ 123,390	\$ 92,735

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 the 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:

*Net assets without donor restrictions*—Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees.

*Net assets with donor restrictions*—Net assets subject to donor-imposed stipulations. Some donor-imposed stipulations are temporary in nature, such as those that may or will be met either by actions of the Museum and/or the passage of time. Other donor-imposed stipulations are permanent in nature, where the donor stipulates that resources be maintained in perpetuity by the Museum. Generally, the donors of these assets permit the Museum to use all or part of the income earned on related investments for general or specified purposes. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenues are reported as increases in net assets without donor restrictions 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 support without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on non-endowment investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (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 from the date of the statements of financial position 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 net assets with donor restrictions-perpetual in nature if the terms of the gift require that it should be kept in perpetuity and that they be included in the principal of a permanent endowment fund;
- as increases (decreases) in net assets with donor restrictions for a specified purpose 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 net assets without donor restrictions 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 the consolidated 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 consolidated 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 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, 2019 and 2018. The net realized and unrealized gains (losses) in fair value of investments are reflected in the consolidated statements 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. Management feels that all outstanding amounts are fully collectible. As such there is no allowance for doubtful accounts at June 30, 2019 and 2018.

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Receivables

Other receivables include \$2,433,718 for legal fees incurred as of June 30, 2019 and 2018 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 10 years. 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.

Inventories

Inventories consist of Museum store inventory and are recorded at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. When evidence exists that the net realizable value of inventory is lower than its cost, the difference is recognized as a loss in the statement of activities in the period in which it occurs. 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 \$44,961 at June 30, 2019 and 2018.

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. As of June 30, 2019 and 2018, the Museum owned \$638,020,801 (unaudited) and \$592,114,044 (unaudited) of artwork acquired after October 1, 1984, respectively. 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, 2019 and 2018, the Museum has approximately \$403,195,323 (unaudited) and \$371,591,553 (unaudited) of donated artifacts that have not been recorded in the accompanying consolidated financial statements, respectively.

The Museum has a policy of not capitalizing the collection of artistic and historic items in its consolidated 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 net assets without donor restrictions in the year in which the items are acquired or as net assets with donor restrictions 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 90 individual objects to the collection during the year ended June 30, 2019 and 196 individual objects to the collection during the year ended June 30, 2018 through gifts, transfers, or purchases. The Museum purchased and expensed 75 and 38 individual objects during the years ended June 30, 2019 and 2018, respectively. There was one deaccession during the year ended June 30, 2018.

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.

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 and 2018 there was one annuity, which was calculated using a discount rate of 7.2%. During the years ended June 30, 2019 and 2018 the liability on annuity contract decreased by \$9,237 and \$18,817, respectively.

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 Dallas Museum of Art ("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.

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 statements of activities and changes in net assets for the years ended June 30, 2019 and 2018. 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 \$19,139 and \$33,200 of income taxes on unrelated business income during the years ended June 30, 2019 and 2018, respectively. The Museum’s returns are generally subject to examination for three years after the later of the due date or date of filing.

Functional Allocation of Expenses

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Museum. These expenses include depreciation, interest, facilities, operations, and maintenance. Natural expenses attributable to more than one functional expense category are allocated using a time and effort cost allocation technique.

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 15.

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 net assets with donor restrictions. 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 restricted in perpetuity net assets with donor restrictions (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 16.

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Adopted Accounting Pronouncement

In August 2016, FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The objective of this ASU is to improve the net asset classification requirements and the information presented in financial statements and notes about a not-for-profit’s liquidity, financial performance, and cash flows.

The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenditures by function and nature in either the statement of revenues, expenditures, and changes in net assets, a separate statement of functional expenses, or in the notes to the financial statements and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Museum implemented ASU 2016-14 for its 2019 fiscal year and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented. There was no impact to net asset balances, total assets, total liabilities, or changes in net assets. Net assets previously reported as unrestricted are now reported as net assets without donor restrictions. Net assets previously reported as temporarily or permanently restricted are now reported as net assets with donor restrictions.

Recent Accounting Pronouncements

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958)—Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this ASU to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Museum will apply the changes due to ASU 2018-08 for transactions in which the Museum serves as the resource provider to annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early application of the amendments in this ASU is permitted.

In February, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP - which requires only capital leases to be recognized on the statement of financial position - the new ASU will require both types of leases to be recognized on the statement of financial position. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments in this ASU is permitted.

In May 2014, the FASB issued ASU 2014-09, *Revenue Recognition (Topic 606)—Revenue from Contracts with Customers*. This ASU introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018 and for interim periods within fiscal years beginning after December 15, 2019. Early application of the amendments in this ASU is permitted.

The Museum is currently assessing the impact that these recent accounting pronouncements will have on its consolidated financial statements.

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. INVESTMENTS

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

	<u>2019</u>	<u>2018</u>
Short-term investments	\$ 1,949,493	\$ 2,967,986
Equity securities	146,773,539	153,966,895
Corporate bonds and other debt securities	34,758,795	27,748,235
Alternative investments	<u>46,665,831</u>	<u>37,962,268</u>
	<u>\$ 230,147,658</u>	<u>\$ 222,645,384</u>

The following summarizes total net investment return:

	<u>2019</u>	<u>2018</u>
Dividends and interest income	\$ 5,468,136	\$ 4,341,168
Net realized gain on investments	5,528,475	3,931,447
Net unrealized gain on investments	<u>740,098</u>	<u>11,781,271</u>
Total net investment return	<u>\$ 11,736,709</u>	<u>\$ 20,053,886</u>

Investment fees and expenses are \$43,830 and \$44,857 for the years ended June 30, 2019 and 2018, respectively.

3. LIQUIDITY

The following table reflects the Museum's financial assets as of June 30, 2019 and 2018, respectively reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, perpetual endowments and accumulated earnings net of appropriations within one year, receivables for complex litigation, subject to donor restrictions, or because the Board of Trustees has set aside the funds for specific contingency reserves and projects or a long-term investment as board designated endowments. These board designations could be drawn upon if the board approves that action.

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 2,628,234	\$ 1,666,132
Investments, at fair value	230,147,658	222,645,384
Contributions receivable, net	16,015,707	4,587,227
Other receivables, net	2,887,690	2,638,519
Accrued investment income	<u>186,987</u>	<u>152,799</u>
Financial assets, at year-end	<u>251,866,276</u>	<u>231,690,061</u>
Less: amounts unavailable for general expenditure within one year:		
Donor restrictions for perpetual purposes	(147,478,381)	(139,885,123)
Donor restrictions for time or purposes beyond one year	(61,255,181)	(59,344,231)
Long-term contributions receivable	(11,584,028)	(3,200,000)
Board designated reserves	(11,655,913)	(9,799,439)
Litigation receivable	<u>(2,433,718)</u>	<u>(2,433,718)</u>
	<u>(234,407,221)</u>	<u>(214,662,511)</u>
Liquidity resources:		
Bank lines of credit	<u>2,615,000</u>	<u>2,615,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 20,074,055</u>	<u>\$ 19,642,550</u>

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. 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.

5. CONTRIBUTIONS RECEIVABLE

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

	<u>2019</u>	<u>2018</u>
Endowments and specified purpose	\$ 13,682,793	\$ 4,475,000
Operating	<u>2,959,167</u>	<u>489,341</u>
	16,641,960	4,964,341
Less unamortized discount	<u>(626,253)</u>	<u>(377,114)</u>
Contributions receivable, net	<u>\$ 16,015,707</u>	<u>\$ 4,587,227</u>

Contributions receivable were discounted using rates ranging from 1.63% to 3.07%.

Contributions receivable expected to be collected in:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 5,057,932	\$ 1,764,341
One to five years	11,096,528	3,200,000
After five years	<u>487,500</u>	<u>-</u>
	<u>\$ 16,641,960</u>	<u>\$ 4,964,341</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.

6. PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Furniture, fixtures, and improvements	\$ 19,812,886	\$ 19,794,537
Equipment and software	<u>3,229,933</u>	<u>2,712,498</u>
	23,042,819	22,507,035
Less accumulated depreciation and amortization	<u>(12,549,105)</u>	<u>(11,298,330)</u>
	10,493,714	11,208,705
Construction in progress	<u>14,400</u>	<u>161,430</u>
	<u>\$ 10,508,114</u>	<u>\$ 11,370,135</u>

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 13 for further discussion.

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. 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 2020 and may be drawn on (subject to availability) or repaid at any time. All advances under the line are unsecured. As of both June 30, 2019 and 2018, \$2,385,000 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, 2019 and 2018 was 3.60% and 3.27%, respectively. 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, 2019 and 2018.

8. 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, 2019 and 2018 was 3.30% and 2.97%, respectively. The note matures April 3, 2022 and is secured by certain investments held in U.S. equity securities. 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, 2019 and 2018. Future scheduled maturities of the note are as follows:

Years ending June 30,:

2020	\$	171,428
2021		171,428
2022		<u>128,575</u>
	<u>\$</u>	<u>471,431</u>

9. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions consist of funds which are available to support the following purposes at June 30,:

	<u>2019</u>	<u>2018</u>
Acquisitions	\$ 47,637,420	\$ 46,736,206
Exhibitions, curatorial, and conservation	77,458,708	69,603,106
Education	43,808,644	44,131,751
Operations and other	<u>75,393,132</u>	<u>64,399,964</u>
	<u>\$ 244,297,904</u>	<u>\$ 224,871,027</u>

10. NET ASSETS RELEASED FROM RESTRICTIONS

The sources of net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the year ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Acquisitions	\$ 837,557	\$ 998,958
Exhibitions, curatorial, and conservation	3,716,992	3,335,198
Education	2,499,392	2,431,998
Operations and other	<u>6,690,654</u>	<u>3,205,942</u>
	<u>\$ 13,744,595</u>	<u>\$ 9,972,096</u>

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. 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,:

	2019	2018
Actuarial present value of projected benefit obligation:		
Projected benefit obligation	\$ (13,179,708)	\$ (11,895,736)
Plan assets at fair value	<u>9,390,897</u>	<u>9,300,780</u>
Net statement of financial position liability	<u><u>\$ (3,788,811)</u></u>	<u><u>\$ (2,594,956)</u></u>
Net assets without donor restrictions:		
Net loss	<u>\$ 4,959,878</u>	<u>\$ 3,849,060</u>
Additional minimum liability	<u>\$ 4,959,878</u>	<u>\$ 3,849,060</u>
Employer contribution	<u>\$ -</u>	<u>\$ 62,000</u>
Benefits paid	<u>\$ 464,602</u>	<u>\$ 507,663</u>
Net period benefit cost	<u>\$ 83,037</u>	<u>\$ 146,064</u>

A pension benefit obligation was recognized by the Museum as of June 30, 2019 and 2018 due to the unfunded status of the plan. The unfunded status as of June 30, 2019 and 2018 of \$3,788,811 and \$2,594,956, respectively, is included within accrued expenses in the consolidated statements of financial position. The accumulated benefit obligation as of June 30, 2019 and 2018 was \$13,179,708 and \$11,895,736, respectively.

Assumptions Used in Determining Net Period Benefit Cost

The weighted average discount rate used in determining the net period benefit cost for June 30, 2019 and 2018 was 3.52% and 4.17%, respectively. There was no weighted average compensation increase for June 30, 2019 and 2018. The expected long-term rate of return on plan assets was 7.5% for June 30, 2019 and 2018.

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 2019 Gallagher Fiduciary Advisors Investment Model provides a weighted average expected return of 6.30% with standard deviation of 11.52%. The estimated probability distributions of geometric returns for 20 years show that the 48<sup>th</sup> percentile is 7.5%.

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

2020	\$ 618,000
2021	583,000
2022	570,000
2023	604,000
2024	597,000
2025 through 2029	<u>3,205,000</u>
	<u><u>\$ 6,177,000</u></u>

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. PENSION PLAN (Continued)

Assumptions Used in Determining Projected Benefit Obligations (Continued)

Plan assets are allocated as follows at June 30:

	2019	2018
Equity securities:		
Pooled, common and collective funds	75.4%	75.6%
Fixed income securities:		
Pooled, common and collective funds	16.2%	16.3%
Other:		
Real estate funds	8.4%	8.1%
Total plan assets	100.0%	100%

The following table summarizes the carrying amounts and estimated fair values (fully described in Note 15), of the Plan's financial instruments measured at fair value at June 30, 2019:

	Measured at Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Short-term investments (a):				
Money market funds	\$ 2,383	\$ 2,383	\$ -	\$ -
Total assets in fair value hierarchy	2,383	\$ 2,383	\$ -	\$ -
Pooled separate account funds (b)	9,388,514			
Total investments at fair value	\$ 9,390,897			

The following table summarizes the carrying amounts and estimated fair values (fully described in Note 15), of the Plan's financial instruments measured at fair value at June 30, 2018:

	Measured at Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Short-term investments (a):				
Money market funds	\$ 1,520	\$ 1,520	\$ -	\$ -
Total assets in fair value hierarchy	1,520	\$ 1,520	\$ -	\$ -
Pooled separate account funds (b)	9,299,260			
Total investments at fair value	\$ 9,300,780			

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

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. PENSION PLAN (Continued)

Assumptions Used in Determining Projected Benefit Obligations (Continued)

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.

12. EXPENSES

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Museum. These expenses include depreciation, interest, facilities operations and maintenance. Natural expenses attributable to more than one functional expense category are allocated using a time and effort cost allocation technique.

Functional expenses by natural classification as of June 30, 2019:

	<u>Program Activities</u>			<u>Supporting Services</u>		<u>Total</u>
	<u>Galleries and Exhibitions</u>	<u>Collections</u>	<u>Education</u>	<u>Fundraising</u>	<u>General Administration</u>	
Salaries and Employee benefits	\$ 5,021,903	\$ 1,589,459	\$ 2,054,953	\$ 2,353,830	\$ 4,258,828	\$ 15,278,973
Services, supplies and other	6,908,888	2,427,293	1,649,292	3,632,114	1,534,192	16,151,779
Depreciation and amortization	326,236	-	326,236	130,496	521,978	1,304,946
Interest	-	-	-	-	123,390	123,390
Total expenses	<u>\$ 12,257,027</u>	<u>\$ 4,016,752</u>	<u>\$ 4,030,481</u>	<u>\$ 6,116,440</u>	<u>\$ 6,438,388</u>	<u>\$ 32,859,088</u>

Functional expenses by natural classification as of June 30, 2018:

	<u>Program Activities</u>			<u>Supporting Services</u>		<u>Total</u>
	<u>Galleries and Exhibitions</u>	<u>Collections</u>	<u>Education</u>	<u>Fundraising</u>	<u>General Administration</u>	
Salaries and Employee benefits	\$ 4,209,339	\$ 1,329,462	\$ 1,829,522	\$ 2,124,137	\$ 3,964,032	\$ 13,456,492
Services, supplies and other	5,399,326	2,707,974	1,555,515	2,887,563	752,020	13,302,398
Depreciation and amortization	312,836	-	312,836	125,134	500,539	1,251,345
Interest	-	-	-	-	92,735	92,735
Total expenses	<u>\$ 9,921,501</u>	<u>\$ 4,037,436</u>	<u>\$ 3,697,873</u>	<u>\$ 5,136,834</u>	<u>\$ 5,309,326</u>	<u>\$ 28,102,970</u>

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. CONTRIBUTED GOODS AND SERVICES

As discussed in Note 6, 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 statements of activities and changes in net assets and amounted to \$3,004,018 and \$3,388,685 in fiscal years 2019 and 2018, respectively. The Museum received an additional \$518,087 and \$559,994 of contributed goods and services from other sources during the year ended June 30, 2019 and 2018, respectively.

14. ADVERTISING EXPENSES

During the years ended June 30, 2019 and 2018, the Museum incurred \$881,812 and \$656,960, respectively, 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 statements of activities and changes in net assets.

15. 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

15. 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, 2019:

	Carrying Amount	Measured at Fair Value	Level 1	Level 2	Level 3
Investments:					
Equity securities	\$ 146,773,539	\$ 146,773,539	\$146,773,539	\$ -	\$ -
Mutual funds—fixed income	20,631,040	20,631,040	20,631,040	-	-
Short-term investments	<u>1,949,493</u>	<u>1,949,493</u>	<u>1,949,493</u>	-	-
Total assets in fair value hierarchy	169,354,072	169,354,072	<u>\$169,354,072</u>	<u>\$ -</u>	<u>\$ -</u>
Other fixed income (a)	14,127,755	14,127,755			
Alternative investments (a)	<u>46,665,831</u>	<u>46,665,831</u>			
Total investments at fair value	<u>\$ 230,147,658</u>	<u>\$ 230,147,658</u>			
Beneficial interest in trusts	<u>\$ 68,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,288</u>

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, 2018:

	Carrying Amount	Measured at Fair Value	Level 1	Level 2	Level 3
Investments:					
Equity securities	\$ 153,966,895	\$ 153,966,895	\$ 153,966,895	\$ -	\$ -
Mutual funds—fixed income	14,446,627	14,446,627	14,446,627	-	-
Short-term investments	<u>2,967,986</u>	<u>2,967,986</u>	<u>2,967,986</u>	-	-
Total assets in fair value hierarchy	171,381,508	171,381,508	<u>\$ 171,381,508</u>	<u>\$ -</u>	<u>\$ -</u>
Other fixed income (a)	13,301,608	13,301,608			
Alternative investments (a)	<u>37,962,268</u>	<u>37,962,268</u>			
Total investments at fair value	<u>\$ 222,645,384</u>	<u>\$ 222,645,384</u>			
Beneficial interest in trusts	<u>\$ 68,288</u>	<u>\$ -</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.

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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, 2017	\$ 68,288
Total gains (losses):	
Included in realized/unrealized	-
Purchases, issuances, and redemptions, net	-
Ending balance, June 30, 2018	68,288
Total gains (losses):	
Included in realized/unrealized	-
Purchases, issuances, and redemptions, net	-
Ending balance, June 30, 2019	\$ 68,288

Total Level 3 gains or losses, if any 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:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Investments in:				
Alternative				
Investments (2019)	\$ 46,665,831	\$ -	Quarterly/Monthly	60 Days
(a)(b)(c)				90 Days
Investments in:				
Alternative				
Investments (2018)	\$ 37,962,268	\$ -	Quarterly/Monthly	60 Days
(a) (b) (c)				90 Days

- (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 60 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 and changes in net assets.

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. 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. Endowment funds without donor restriction 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, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-restricted endowment funds	\$ 11,655,913	\$ -	\$ 11,655,913
Donor-designated endowment funds	-	208,733,562	208,733,562
Total funds	<u>\$ 11,655,913</u>	<u>\$ 208,733,562</u>	<u>\$ 220,389,475</u>

Changes in Endowment Net Assets for the year ended June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of period	\$ 9,799,439	\$ 199,229,354	\$ 209,028,793
Investment return:			
Investment income	254,884	5,213,252	5,468,136
Net appreciation (unrealized and realized)	<u>279,162</u>	<u>5,983,249</u>	<u>6,262,411</u>
Total investment returns	534,046	11,196,501	11,730,547
Contributions	1,717,438	7,599,590	9,317,028
Reclassification to specified purpose funds	-	(6,332)	(6,332)
Appropriation of endowment assets for expenditure	<u>(395,010)</u>	<u>(9,285,551)</u>	<u>(9,680,561)</u>
Endowment net assets, end of period	<u>\$ 11,655,913</u>	<u>\$ 208,733,562</u>	<u>\$ 220,389,475</u>

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. ENDOWMENT (Continued)

Interpretation of Relevant Law (Continued)

Endowment Net Asset Composition by Type of Fund at June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-restricted endowment funds	\$ 9,799,439	\$ -	\$ 9,799,439
Donor-designated endowment funds	-	199,229,354	199,229,354
Total funds	<u>\$ 9,799,439</u>	<u>\$ 199,229,354</u>	<u>\$ 209,028,793</u>

Changes in Endowment Net Assets for the year ended June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of period	\$ 9,283,470	\$ 184,641,777	\$ 193,925,247
Investment return:			
Investment income	207,595	4,133,573	4,341,168
Net appreciation (unrealized and realized)	<u>753,309</u>	<u>14,958,346</u>	<u>15,711,655</u>
Total investment returns	960,904	19,091,919	20,052,823
Contributions	-	3,358,797	3,358,797
Reclassification from specified purpose funds	-	445,550	445,550
Appropriation of endowment assets for expenditure	<u>(444,935)</u>	<u>(8,308,689)</u>	<u>(8,753,624)</u>
Endowment net assets, end of period	<u>\$ 9,799,439</u>	<u>\$ 199,229,354</u>	<u>\$ 209,028,793</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, 2019 and 2018.

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.

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives (Continued)

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.

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 4.83% 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. This distribution rate is scheduled to decline to 4% over the next five years. Total distributions from these funds to operations were \$9,338,621 and \$8,402,814 in fiscal years 2019 and 2018, respectively. 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.

17. 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,:

2020	\$	186,930
2021		114,246
2022		114,246
2023		114,246
2024		110,232
Thereafter		17,703
		<u>\$ 657,603</u>

Rent expense for fiscal years 2019 and 2018 was \$151,382 and \$131,596, respectively.

Litigation

The Museum is involved in litigation surrounding the receipt of artifacts from the estate of a donor. As of June 30, 2019, 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.

Dallas Museum of Art  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. RELATED PARTY TRANSACTIONS

The Museum has received contributions, other than artwork, of \$6,622,197 and \$8,731,137 for the years ended June 30, 2019 and 2018, respectively, 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 fiscal years 2019 and 2018, a portion of the net proceeds were contributed to the Museum in the amount of \$3,744,389 and \$3,170,720, respectively.

Certain board members are owners or directors of certain entities that are vendors to the Museum. During fiscal years 2019 and 2018, the Museum received in-kind services of \$111,950 and \$205,345, respectively, from these vendors.

A member of the Board of Trustees is also the Managing Director at an affiliate of Bank of America, N.A. The Museum utilized \$2,385,000 of the \$5 million line of credit granted in both fiscal years 2019 and 2018. The Museum also has a note payable through Bank of America, N.A. of \$471,431 as of June 30, 2019 and \$642,859 as of June 30, 2018 that will mature in 2022. The line of credit and note payable are disclosed in further detail in Notes 7 and 8 above.

A member of the Board of Trustees is also an officer of an unrelated organization. This organization stored and shipped various pieces of art throughout the year for the Museum. During the years ended June 30, 2019 and 2018, \$379,164 and \$320,883, respectively, was paid to this organization for these services.

19. CONCENTRATIONS

Within other accounts receivable, approximately 84% and 92% of the amount owed to the Museum at June 30, 2019 and 2018, respectively, relates to the advance of legal costs stemming from shared joint expenses in defending claims to works of art. Approximately 11% of gross pledges receivable at June 30, 2019 are from one donor and approximately 81% of gross pledges receivable at June 30, 2018 were due from one donor. Approximately 26% and 27% of total contributions at June 30, 2019 and 2018, respectively, are from two donors.

20. 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 years ended June 30, 2019 and 2018 was \$383,221 and \$390,100, respectively.

21. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 18, 2019, the date the consolidated financial statements were available to be issued.

Subsequent to year end, the Museum has elected to take the necessary steps to terminate the retirement plan as soon as permissible. The retirement plan was frozen and replaced with a 401(k) plan in fiscal year 2015.

SUPPLEMENTAL SCHEDULE

Dallas Museum of Art  
SCHEDULE OF ENDOWMENT FUNDS  
June 30, 2019

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, 2019:

	Total Net Assets
<b>Acquisitions Endowment Funds</b>	
Marguerite and Robert Hoffman Endowment	\$ 16,228,869
Cecil and Ida Green Art Acquisition Fund	4,825,173
Amelia Lay Hodges Acquisition Fund	3,963,790
Decorative Arts Discretionary Endowment Fund	2,948,645
General Acquisitions Endowment Fund	2,850,257
Roberta Coke Camp Endowment Fund	1,991,572
African Art Acquisitions Endowment Fund	1,641,640
Gayle and Paul Stoffel Fund for Contemporary Art Acquisition	1,489,356
Textile Acquisitions Endowment Fund	1,119,280
The Stanley & Linda Marcus Endowment for the Acquisition of Latin American Art	911,788
Otis and Velma Davis Dozier Endowment Fund	562,276
Beatrice M. and Patrick E. Haggerty Endowment Fund	488,110
Mary Margaret Munson Wilcox Fund	394,976
E.E. Fogelson and Greer Garson Fogelson Charitable Fund	353,750
Charron and Peter Denker Fund for Contemporary Texas Art	352,082
Theodore and Iva Hochstim Endowment Fund	226,110
Texas Artists Endowment Fund	201,767
Laura and Walter Elcock Contemporary Art Endowment Fund	145,923
Susan Mead Contemporary Art Acquisition Endowment Fund	141,914
Total Acquisitions	40,837,278
<b>Exhibition, Curatorial, and Conservation Endowment Funds</b>	
Exhibition Endowment Fund	18,621,904
The Hoffman Family Senior Curator of Contemporary Art	5,590,355
Freeman Family Exhibition Fund	4,347,478
Modern and Contemporary Sculpture Endowment Fund	3,525,193
Marguerite and Robert Hoffman Operating Fund	3,515,275
Lupe Murchison Curator of Contemporary Art Endowment Fund	3,409,300
Marcus-Rose Family Deputy Director Endowment Fund	3,032,327
The Ellen and Harry S. Parker III Curator of the Arts of the Americas and the Pacific	2,904,257
Pauline G. Sullivan Curator of American Art Endowment Fund	2,879,004
Cecil and Ida Green Curator of Ancient and South Asian Art	2,878,673
Margaret McDermott Curator of African Art Endowment Fund	2,742,742
The Nancy & Tim Hanley Associate Curator of Contemporary Art	2,176,850
Melba Davis Whatley Endowment Fund	2,131,623
NEH Chief Conservator	1,781,044
Margot B. Perot Curator of Decorative Arts and Design Fund	1,565,877
Barbara Thomas Lemmon Curator of European Art Endowment Fund	1,531,046
Lillian Clark Curatorship for Paintings and Sculpture	1,405,750
The John Wilcox Contemporary Art Exhibition Endowment Fund	1,325,443
McDermott Conservation Endowment	1,072,672
Rosine Foundation Decorative Art Endowment Fund	745,066
Conservation Endowment Fund	664,031
Howard and Fanchon Hallam Endowment for Contemporary Art	577,511
Steven G. Alpert and Family Indonesian Art Fund	509,639
Charles Dee Mitchell Photography Fund	183,131
Jean and Bill Booziotis Fund for Design and Architecture	160,771
Exhibitionists Endowment Fund	154,429
The Graham Williford Foundation for American Art Endowment	23
Total Exhibition, Curatorial, and Conservation	69,431,414

See Report of Independent Certified Public Accountants.

Dallas Museum of Art  
SCHEDULE OF ENDOWMENT FUNDS (Continued)  
June 30, 2019

Education Endowment Funds	
McDermott Education Endowment Fund	\$ 4,267,187
The Kelli and Allen Questrom Director of the Center for Creative Connections	3,297,492
DMA League Director of Education Endowment Fund	3,064,411
Office of Digital Archivist	3,057,110
Mayer Library Endowment Fund	2,983,811
Anonymous Program Endowment Fund	2,218,873
The Bonnie Pitman Education Endowment to Do Something New	1,779,344
Education Endowment Fund for Interpretation	1,594,562
Pollock Foundation Education Endowment Fund	1,441,274
The Alex, Charlie, Grey, Jack and Rosey Fund	1,435,687
Mildred R. and Frederick M. Mayer Librarian Endowment Fund	1,430,025
Robert J. O'Donnell Endowment Fund	1,001,111
Gayle Hysinger Endowment Fund for Education	750,304
Nancy Cain Marcus Education Endowment Fund	720,912
Freeman Family Endowment Fund	720,119
Jeffrey A. Marcus Education Endowment Fund	719,897
Anonymous Endowment Fund	709,864
Boshell Lecture Series Endowment Fund	680,307
Rosewood Corporation Teacher Education Fund	661,103
Prothro Education Endowment Fund	654,101
The Martha McCarty Kimmerling Fund for Education	639,259
William Randolph Hearst Endowment Fund for Education Programs	511,985
Christopher and Sue Bancroft Education Endowment Fund	472,250
Marilyn R. and Leo F. Corrigan, Jr. Endowment Fund	412,241
Dr. Anson L. Clark Endowment Fund	396,893
Arch and Anne Giles Kimbrough Endowment Fund	380,237
Bank of America Education and Outreach Endowment Fund	376,754
Andrea Brenner-McMullen Arts Support Endowment Fund	301,527
Selma Parrill Children's Education Endowment Fund	289,189
Kay Cattarulla Endowment Fund for Literary and Performing Arts	280,244
Clara and Leo Corrigan, Sr. Endowment Fund	268,072
JC Penney Teaching Resource Center Endowment Fund	235,243
Albert and Minnie Susman Education Endowment Fund	226,388
King Foundation Education Endowment Fund	226,359
Jane Du Pont and Barron U. Kidd Endowment	202,322
Dozier Travel Endowment Fund	197,917
Bromberg Endowment Fund	186,608
Brettell Lecture Series Endowment Fund	174,057
Shirley Philipson Pollock Internship in Art Librarianship Endowment	172,119
DeGolyer Endowment Fund	169,411
Levy Endowment Fund for Music	157,355
Nancy and Jeffrey Marcus Endowment Fund	147,313
Education Endowment Fund	144,463
Karen and Richard Pollock Endowment Fund	143,518
Collins Lecture Series Endowment Fund	140,494
Hobson Education Endowment Fund	140,074
Betty Moroney Norsworthy Endowment Fund	139,747
Arthur Andersen Education Endowment Fund	123,621
McGee Endowment for Arts & Letters Live	120,195
Rick and Diana Strauss Special Education Endowment	37,892
Gateway Gallery Endowment Fund	29,458
Print and Drawing Endowment Fund	20,210
Total education endowment funds	40,650,909

See Report of Independent Certified Public Accountants.

Dallas Museum of Art  
SCHEDULE OF ENDOWMENT FUNDS (Continued)  
June 30, 2019

Operations and Other Specified Purpose Endowment Funds	
Expansion Campaign Endowment Fund	\$ 16,024,931
Family Fund Endowment Fund	11,394,730
Anonymous Endowment Fund 1	5,042,076
Edward W. and Deedie Rose Endowment	4,980,344
The Eugene McDermott Director's Endowment	4,929,041
Fannie and Stephen Kahn Fund	4,015,363
Edmund J. and Louise W. Kahn Endowment Fund	3,732,306
Anonymous Endowment Fund 2	2,784,053
McDermott Challenge Endowment	2,160,637
Operating Reserve Fund	1,715,638
Program Endowment Fund	1,454,607
Anonymous Endowment Fund 3	1,374,668
McDermott Garden Endowment Fund	1,290,065
Gayle David Fogelson Endowment Fund	1,082,102
Sarah M. & Charles E. Seay Fund in honor of Jack R. Munger	1,019,670
Anne Marie & Thomas Walker Fund	1,005,600
NEA Challenge Grant Endowment Fund	821,519
DMA League Museum Beautification Endowment Fund	726,601
The Clarence and Ruth Roy Endowment Fund	600,310
Anonymous Director's Assistants Endowment Fund	575,819
Ernest and Irene Wadel Endowment Fund	500,603
Frank and Binswanger Fresh Flower Fund	455,625
S. T. Harris Endowment Fund	429,091
Fay and Newt Walker Endowment Fund	376,308
Shirley Pollock Endowment Fund	271,142
General Operations Endowment Fund	265,159
Harry and Ellen Parker Endowment Fund	257,966
Patsy Nasher Endowment Fund	147,108
Fleischner Courtyard Maintenance Endowment Fund	36,792
	<hr/>
Total operations and other specified purpose endowment funds	69,469,874
	<hr/>
Total endowment funds	\$ 220,389,475
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Net assets with donor restrictions	\$ 244,297,904
Less net assets with donor restrictions for specified purposes and purchases of fixed assets	(35,564,342)
Net assets without donor restrictions	10,043,265
Unrestricted, undesignated operating funds	1,612,648
	<hr/>
	\$ 220,389,475
	<hr/>