



McNay Art Museum

Financial Report
(with supplementary information)
Years Ended June 30, 2017 and 2016

McNay Art Museum

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(with supplementary information)
Years Ended June 30, 2017 and 2016

McNay Art Museum

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Independent Auditor's Report

To the Board of Directors of
McNay Art Museum
San Antonio, Texas

We have audited the accompanying statements of financial position of McNay Art Museum (the Museum) as of June 30, 2017 and 2016, and the related statement of activities and changes in net assets for the year ended June 30, 2017 and cash flows for the years ended June 30, 2017 and 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2017 and 2016, and the changes in its net assets for the year ended June 30, 2017 and its cash flows for the years ended June 30, 2017 and 2016 in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Financial Information

We have previously audited the Museum's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 25, 2016. In our opinion, the summarized comparative information on the statement of activities and changes in net assets presented herein and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BDO USA, LLP

November 2, 2017

Financial Statements

McNay Art Museum
Statements of Financial Position

<i>June 30,</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 2,047,398	\$ 996,051
Accounts and interest receivable	91,505	98,235
Contributions receivable	586,846	545,908
Insurance proceeds receivable	-	1,500,892
Inventories	89,677	119,609
Investments	52,641,572	49,993,785
Prepaid and deferred expenses	167,043	228,806
Land, buildings, and equipment, net	26,095,259	27,864,383
Construction in progress	322,430	8,000
Total Assets	\$ 82,041,730	\$ 81,355,669
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 359,952	\$ 651,591
Deferred revenue	521,237	731,759
Total Liabilities	881,189	1,383,350
Net Assets		
Unrestricted		
Operating	423,454	356,573
Non-operating	15,612,606	14,732,192
Land, buildings, and equipment	27,925,311	29,465,276
Total Unrestricted	43,961,371	44,554,041
Temporarily restricted	3,867,455	3,270,990
Permanently restricted	33,331,715	32,147,288
Total Net Assets	81,160,541	79,972,319
Total Liabilities and Net Assets	\$ 82,041,730	\$ 81,355,669

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

McNay Art Museum

Statement of Activities and Changes in Net Assets

Year ended June 30, 2017

(With Summarized Financial Information for the Year ended June 30, 2016)

	Unrestricted				Temporarily Restricted	Permanently Restricted	Total	
	Operating	Non- Operating	Land Buildings and Equipment	Total			2017	2016
Revenue, Gains and Other Support								
Contributions	\$ 1,358,642	\$ 229,011	\$ -	\$ 1,587,653	\$ 681,819	\$ 1,000,100	\$ 3,269,572	\$ 2,480,947
Memberships	810,727	-	-	810,727	-	-	810,727	790,032
Special events - net of direct cost totaling \$134,375 in 2017 and \$153,006 in 2016	479,193	-	-	479,193	-	-	479,193	419,007
Dividends and interest, net	5,020	787,919	-	792,939	267,320	7,472	1,067,731	948,408
Net realized and unrealized gains (losses) on investments	-	2,803,038	-	2,803,038	891,263	27,688	3,721,989	(1,199,960)
Oil royalties, net of taxes of \$7,628 in 2017 and \$12,139 in 2016	87,681	-	-	87,681	-	-	87,681	69,539
Rental income	298,828	-	-	298,828	-	-	298,828	311,106
Museum store	319,804	-	-	319,804	-	-	319,804	300,891
Educational program revenue	12,751	-	-	12,751	-	-	12,751	7,990
Exhibition income	836,083	-	-	836,083	-	-	836,083	871,822
Admission fees	230,515	-	-	230,515	-	-	230,515	198,471
Photography fees	38,520	-	-	38,520	-	-	38,520	37,081
Miscellaneous	3,518	-	-	3,518	-	-	3,518	1,565
Transfers/ appropriations	2,410,909	(2,465,063)	-	(54,154)	(95,013)	149,167	-	-
	6,892,191	1,354,905	-	8,247,096	1,745,389	1,184,427	11,176,912	5,236,899
Net assets released from restrictions	1,058,216	90,708	-	1,148,924	(1,148,924)	-	-	-
Total Revenue, Gains, and Other Support	\$ 7,950,407	\$ 1,445,613	\$ -	\$ 9,396,020	\$ 596,465	\$ 1,184,427	\$ 11,176,912	\$ 5,236,899

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

McNay Art Museum
Statement of Activities and Changes in Net Assets

Year ended June 30, 2017

(With Summarized Financial Information for the Year ended June 30, 2016)

	Unrestricted				Temporarily Restricted	Permanently Restricted	Total	
	Operating	Non- Operating	Land Buildings and Equipment	Total			2017	2016
Expenses								
Program Services:								
Curatorial and conservation	\$ 1,522,384	\$ 227,346	\$ 338,802	\$ 2,088,532	\$ -	\$ -	\$ 2,088,532	\$ 2,165,365
Exhibitions and presentations	3,091,039		697,532	3,788,571	-	-	3,788,571	4,114,581
Education	1,113,819	6,411	657,672	1,777,902	-	-	1,777,902	1,757,299
Museum store	363,696		19,930	383,626	-	-	383,626	382,289
Library	278,368		19,929	298,297	-	-	298,297	311,645
Support Services:								
Management and general	525,147	206,635	219,224	951,006	-	-	951,006	1,054,347
Fundraising	765,251	12,387	39,859	817,497	-	-	817,497	857,329
Total Expenses	7,659,704	452,779	1,992,948	10,105,431	-	-	10,105,431	10,642,855
Change in net assets before changes related to collection items not capitalized and non-operating transfers	290,703	992,834	(1,992,948)	(709,411)	596,465	1,184,427	1,071,481	(5,405,956)
Changes related to collection items not capitalized	-	(112,420)	-	(112,420)	-	-	(112,420)	(554,498)
Gain on involuntary conversion of assets	-	-	229,161	229,161	-	-	229,161	868,683
Transfers not affecting operations	(223,822)	-	223,822	-	-	-	-	-
Change in Net Assets	66,881	880,414	(1,539,965)	(592,670)	596,465	1,184,427	1,188,222	(5,091,771)
Net assets, beginning of period	356,573	14,732,192	29,465,276	44,554,041	3,270,990	32,147,288	79,972,319	85,064,090
Net Assets, End of Period	\$ 423,454	\$ 15,612,606	\$ 27,925,311	\$ 43,961,371	\$ 3,867,455	\$ 33,331,715	\$ 81,160,541	\$ 79,972,319

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

McNay Art Museum
Statements of Cash Flows

<i>Years ended June 30,</i>	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 1,188,222	\$ (5,091,771)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,992,946	2,078,590
Net realized and unrealized (gains) losses on investments	(3,721,989)	1,199,960
Net (gain) on disposal of fixed assets	(229,161)	(868,683)
Change in operating activities		
Accounts and interest receivable	6,730	(18,085)
Contributions receivable	(40,938)	42,494
Insurance proceeds receivable	1,500,892	-
Inventories	29,932	(3,115)
Prepaid expenses	61,763	50,349
Accounts payable and accrued expenses	(291,639)	93,019
Deferred revenue	(210,522)	(200,931)
Net Cash Provided by (Used in) Operating Activities	286,236	(2,718,173)
Cash Flows from Investing Activities		
Purchase of equipment and building improvements	(538,252)	(449,658)
Proceeds on sale of fixed assets	-	2,000
Insurance proceeds for fixed asset impairment	229,161	100,000
Proceeds from sale of investments	31,907,788	26,459,812
Purchase of investments	(30,833,586)	(23,441,782)
Net Cash Provided by Investing Activities	765,111	2,670,372
Net Increase (Decrease) in Cash and Cash Equivalents	1,051,347	(47,801)
Cash and Cash Equivalents, beginning of period	996,051	1,043,852
Cash and Cash Equivalents, end of period	\$ 2,047,398	\$ 996,051
Non Cash Activity:		
Receivable - Insurance Proceeds	\$ -	\$ 1,500,892

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

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

The McNay Art Museum (the Museum) is a not-for-profit organization with the mission of engaging a diverse community in the discovery and enjoyment of the visual arts. The Museum is located in San Antonio, Texas.

Basis of Presentation

The financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net Assets

The Museum reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees and, accordingly, include operating and non-operating assets and land, buildings, and equipment. Non-operating activities consist of earnings on permanently endowed funds that the donor has designated as "unrestricted" to be utilized for operations and unrestricted activities not considered "operating" expenditures.

Temporarily Restricted - Net assets whose use by the Museum is subject to donor-imposed restrictions that can be fulfilled by actions of the Museum pursuant to those restrictions, or that expire by the passage of time. In addition, temporarily restricted net assets include earnings, both realized and unrealized, on funds whose earnings are restricted for a specific purpose by the donor (see notes 9 and 11).

Permanently Restricted - Net assets subject to donor-imposed restrictions that must be maintained permanently by the Museum. Generally, the donors of these assets permit the Museum to use all or part of the income from these assets for operating or other purposes (see notes 10 and 15).

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended, June 30, 2016, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Museum considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents that are part of the long-term investment pool are shown within investments as those resources are not used for daily operating purposes.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable represent amounts due in less than one year. The Museum reviews all outstanding amounts and determines collectability of its receivables based on past experience with customers. Credit losses have been minimal and consistent with management's estimates. The Museum has not established an allowance for doubtful accounts based on its historical collections experience. The Museum recognized no bad debts from accounts receivable as of June 30, 2017 or 2016.

Contributions Receivable

Unconditional promises to give from grantors and donors are measured at fair value and recorded as revenues in the period in which the promise to give is received. Management reviews all outstanding amounts and determines collectability based on past experience with the Museum's donors. As of June 30, 2017 and 2016 no allowance has been established against these receivables as management considers them collectible. The Museum recognized no bad debts from contributions receivable as of June 30, 2017 and 2016.

Inventories

Inventories consisting of items held for resale at the Museum store are carried at the lower of cost (first-in, first-out) or market.

Investments

Investments are reported at fair market value as of the date of the financial statements.

Prepaid and Deferred Expenses

Prepaid expenses are primarily comprised of advance payments made to vendors for insurance and exhibitions.

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost or at the fair market value at the date of gift when assets are contributed. The Museum's capitalization policy requires that all items purchased with a useful life of greater than one year and a cost in excess of \$1,250 be capitalized. Depreciation is recorded in the land, buildings, and equipment fund using the straight-line method. Estimated useful lives used in computing depreciation are as follows:

	Years
Buildings, improvements, and landscaping	25
Furniture, fixtures, and equipment	10
Computer and audio visual equipment	5

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Art Collection

In conformity with industry practice, items purchased or donated for the collection are not recorded as assets in the accompanying statement of financial position. Purchases are reported as decreases in unrestricted net assets or as decreases in temporarily restricted net assets if the assets used to purchase the items were restricted by donors. See Note 13.

The collections of the Museum represent one of its most valuable assets; therefore the Museum employs full-time employees to manage stewardship of the collections in accordance with its collection and acquisition policy. Each item in the collection is numbered and catalogued in an electronic database. The Museum loans collection items to other museums from time to time for display purposes.

Contributions reflected in the financial statements include only recorded cash receipts and pledges, and do not include gifts of works of art received by the Museum, valued at \$649,005 and \$663,241 for the years ended June 30, 2017 and 2016, respectively.

Gifts of cash or other property restricted by donors for the purchase of items for the collection are classified as temporarily or permanently restricted. Acquisitions are made in accordance with the terms of the gifts.

Revenue Recognition

The Museum recognizes revenue from contributions, membership, admissions, rentals and exhibitions. Revenue is recognized when earned or given. Amounts contributed for future periods are recorded as deferred revenue.

Special events revenue is recorded at the time of the event net of direct cost of benefits to attendees.

Contributions

The Museum reports gifts of cash and other assets as restricted support if they are received with donor stipulations as to time or use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Museum reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. The Museum did not receive any gifts of land, buildings, or equipment for the years ending June 30, 2017 and 2016.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Deferred Revenue

Deferred revenue represents revenue attributable to events that have not yet occurred.

Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), 820-10, defines fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurements, and expands disclosures about fair value measurements. An instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets that the Museum has the ability to access.

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Federal Income Tax Exemption

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC); therefore, no provision for income taxes has been made in these statements. The Museum follows the provisions of ASC 740-10 *Accounting for Uncertainty in Income Taxes*, which requires recognition and disclosure of uncertain tax positions in the financial statements. The Museum's management believes that it has appropriate support for any tax positions taken and that it has no material uncertain tax positions. Accordingly, it will not recognize any liability for uncertain tax benefits. For the years ended June 30, 2017 and 2016, the Museum did not recognize any interest or penalties in the financial statements.

Tax years 2014-2016 remain open to examination by the taxing jurisdictions which the Museum is subject to, and these periods have not been extended beyond the applicable statute of limitations.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated between the programs and supporting services benefited.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$249,783 and \$311,787 for the years ended June 30, 2017 and 2016, respectively.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements issued but Not Yet Adopted or Currently in Effect

Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date for the Museum until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its financial statements.

Fair Value (Topic 820), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Equivalent)

In May 2015, the FASB issued ASU 2015-07, *Fair Value (Topic 820), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Equivalent)*, which allows for those entities that have elected the practical expedient to use the net asset value (NAV) as a measure of fair value and to no longer categorize these investments within the fair value hierarchy. The practical expedient criteria differ from the criteria used to categorize other fair value measurements within the hierarchy. A reporting entity should continue to disclose information on investments for which fair value is measured at NAV (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from NAV. The ASU is effective for the Museum's fiscal years beginning after December 15, 2016, with early application permitted and should be applied retrospectively. The retrospective approach requires that an investment for which fair value is measured using the NAV practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Management is currently evaluating the impact of the ASU on its financial statements.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Accounting Pronouncements issued but Not Yet Adopted or Currently in Effect (Continued)

Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Museum's fiscal years beginning after December 15, 2019 with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements for Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. 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 expenses by function and nature in either the statement of activities, a separate statement, or in the notes 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 ASU is effective for the Museum's financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on its financial statements.

2. Concentration Risk

Financial instruments which potentially subject the Museum to a concentration risk consist principally of cash.

The Museum maintains multiple bank accounts in San Antonio, Texas. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts, and without limit for non-interest-bearing transaction accounts. The museum holds amounts over the \$250,000 insured limit at various levels during the year.

McNay Art Museum

Notes to Financial Statements

3. Contributions Receivable

Contributions receivable at June 30, 2017 and 2016, and expected date of receipt, are listed below:

	Within One Year	Within Five Years	Total
June 30, 2017 - Unrestricted	\$ 396,846	\$ 190,000	\$ 586,846
June 30, 2016 - Unrestricted	\$ 410,242	\$ 135,666	\$ 545,908

No discount has been applied to the contributions receivable at June 30, 2017 and 2016 as the amount is immaterial to the financial statements.

4. Investments

The carrying value of investments, which is the fair value, is based upon values provided by external investment managers. Fees paid to the external investment managers of \$283,654 and \$262,499 were withdrawn from the account during the year ended June 30, 2017 and 2016 respectively. Therefore, valuation of the investments at year-end reflects value net of fees. Fair values, cost, and unrealized appreciation are summarized as follows:

Total investments are composed of the following at June 30, 2017:

	Cost	Fair Value	Unrealized Appreciation
Money market funds	\$ 3,228,038	\$ 3,228,456	418
U.S. Treasury notes	556,280	586,172	29,892
Corporate debt securities	11,667,290	11,861,346	194,056
Equity securities	23,947,488	28,737,176	4,789,688
Limited partnership - publicly traded	4,803,417	4,837,874	34,457
Limited partnership - privately held	3,000,000	3,390,548	390,548
Total Investments	\$ 47,202,513	\$ 52,641,572	\$ 5,439,059

McNay Art Museum

Notes to Financial Statements

4. Investments (Continued)

Total investments are composed of the following at June 30, 2016:

	Cost	Fair Value	Unrealized Appreciation
Money market funds	\$ 2,796,860	\$ 2,796,942	\$ 82
U.S. Treasury notes	744,199	775,755	31,556
U.S. Government agencies	543,690	592,549	48,859
Corporate debt securities	10,903,422	11,233,580	330,158
Equity securities	24,218,820	27,924,291	3,705,471
Limited partnership - publicly traded	3,578,271	3,461,419	(116,852)
Limited partnership - privately held	3,000,000	3,209,249	209,249
Total Investments	\$ 45,785,262	\$ 49,993,785	\$ 4,208,523

5. Fair Values of Financial Instruments

The Museum uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures. For additional information on how the Museum measures fair value, refer to note 1.

The following tables set forth by level, within the fair value hierarchy, these Museum assets at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 3,228,457	\$ -	\$ -	\$ 3,228,457
U.S. Treasury notes	586,172	-	-	586,172
Corporate debt securities	11,861,346	-	-	11,861,346
Equity securities	28,737,176	-	-	28,737,176
Limited partnership publicly traded	4,837,873	-	-	4,837,873
Limited partnership privately held	-	3,390,548	-	3,390,548
Total Assets at Fair Value	\$ 49,251,024	\$ 3,390,548	\$ -	\$ 52,641,572

McNay Art Museum

Notes to Financial Statements

5. Fair Values of Financial Instruments (Continued)

The following tables set forth by level, within the fair value hierarchy, these Museum assets at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,796,942	\$ -	\$ -	\$ 2,796,942
U.S. Treasury notes	775,755	-	-	775,755
U.S. Government agencies	592,549	-	-	592,549
Corporate debt securities	11,233,580	-	-	11,233,580
Equity securities	27,924,291	-	-	27,924,291
Limited partnership publicly traded	3,461,419	-	-	3,461,419
Limited partnership privately held	-	3,209,249	-	3,209,249
Total Assets at Fair Value	\$ 46,784,536	\$ 3,209,249	\$ -	\$ 49,993,785

6. Land, Buildings, and Equipment

Major classification of land, buildings, and equipment are summarized below:

<i>Years ended June 30,</i>	2017	2016
Land	\$ 585,962	\$ 585,962
Buildings, improvements, and landscaping	48,643,098	48,570,696
Furniture and equipment	2,526,461	2,375,042
Total Land, Buildings and Equipment	51,755,521	51,531,700
Less: Accumulated depreciation	(25,660,262)	(23,667,317)
Net Land, Buildings, and Equipment	\$ 26,095,259	\$ 27,864,383

Depreciation expense totaled \$1,992,946 and \$2,078,590 for the years ended June 30, 2017 and 2016, respectively. The Museum had no disposals of furniture and equipment during the year ended June 30, 2017. The Museum disposed of furniture and equipment with cost of \$604,633 and net book value of \$120,250 during the year ended June 30, 2016.

McNay Art Museum

Notes to Financial Statements

7. Involuntary Conversion

On April 12, 2016, the Museum sustained heavy roof damage from hailstorms, creating an impairment to the value of the assets. Damage is recoverable through insurance. Under GAAP the Museum recognized the impairment and subsequent insurance recovery, in the financial statements. Following is the recognition of this event for the year ended June 30, 2016:

Original cost of assets damaged	\$	1,713,230
Less: accumulated depreciation		1,099,271
<hr/>		
Net book value of assets damaged and impaired		613,959
Insurance proceeds - fiscal year 2016		1,600,892
<hr/>		
Gain on involuntary conversion - fiscal year 2016	\$	986,933
<hr/>		
Insurance proceeds - fiscal year 2017	\$	229,161

An initial payment of \$100,000 was received in May 2016 and an additional payment received in July 2016 of \$1,500,892 is reflected as a receivable in the statement of financial position at June 30, 2016. Additional insurance proceeds of \$229,161 were received in the fiscal year ended June 30, 2017.

8. Operating Leases

The Museum has several non-cancelable operating leases for equipment that expire at different dates through June 2019. The following are future minimum lease payments under these leases:

<i>Year ending June 30,</i>		Amount
2018	\$	40,740
2019		30,555
<hr/>		
	\$	71,295

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

<i>Years Ended June 30,</i>	2017	2016
Art acquisitions/conservation	\$ 2,042,454	\$ 979,650
Education, exhibitions, and presentations	1,304,019	1,338,182
Other	520,982	953,158
<hr/>		
Total Temporarily Restricted Net Assets	\$ 3,867,455	\$ 3,270,990

McNay Art Museum

Notes to Financial Statements

10. Permanently Restricted Net Assets

The following permanently restricted net assets must be invested in perpetuity; the income from these investments is expendable to support the listed functions:

<i>Years ended June 30,</i>	2017	2016
Auditorium and gallery maintenance	\$ 700,000	\$ 700,000
Art acquisitions	1,737,691	737,691
Educational programs, exhibitions, and presentations	9,759,340	9,574,913
Curatorial and conservation	1,000,000	1,000,000
Director's chair	1,000,000	1,000,000
Any activities of the museum	19,134,684	19,134,684
Total Permanently Restricted Net Assets	\$ 33,331,715	\$ 32,147,288

11. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, or by occurrence of other events specified by donors.

<i>Years ended June 30,</i>	2017	2016
Art acquisitions	\$ 112,420	\$ 554,498
Exhibitions, presentation, and education	899,602	837,972
Other	136,902	190,055
Total Net Assets Released from Restrictions	\$ 1,148,924	\$ 1,582,525

12. Contributed Services

A substantial number of volunteers have made significant contributions of their time to develop the Museum, especially its fundraising and educational programs. Approximately 12,000 volunteer hours were contributed during each of the years ended June 30, 2017 and 2016. Accounting principles do not permit recording the value of this type of contributed services in the financial statements.

13. Objects Held for Display

Objects held for display (the Museum collection) consist primarily of a strong collection of 19th and 20th century European and American paintings, prints, sculptures, and one of the leading collections of theatre arts in the country. The Museum collection is essential to its mission. The Museum has established stewardship procedures for the accession (acquisition), deaccession (disposal), loan, and care of the collection.

As noted in note 1, objects held for display are not recorded in the statement of financial position of the Museum. The proceeds received as a result of any deaccessions are used to acquire other works of art for the collection.

McNay Art Museum

Notes to Financial Statements

14. Retirement Plan

The Museum established a defined contribution 403(b) retirement plan (the Plan) effective April 2003 and makes bi-weekly contributions to the Plan on behalf of eligible employees. The Plan investments are employee-directed. The Museum contributed \$186,431 and \$193,428 to the plan for the fiscal years ended June 30, 2017 and 2016, respectively. Employees working more than 20 hours per week are eligible for a 6% employer contribution beginning on the first anniversary of their hire date, after completion of 1000 hours of service, and attaining the age of 20½ years.

The Museum also sponsors a 457(b) deferred compensation plan, enabling certain employees to enhance their retirement by allowing them to defer compensation and receive benefits at separation of service. The Museum contributed \$41,078 and \$44,043 to this plan for the years ended June 30, 2017 and 2016, respectively.

15. Endowment Funds

General Information

The Museum maintains various endowment funds established for a variety of purposes. These endowments include both donor-restricted endowment contributions, and funds designated by the Board of Trustees to function as endowments. The donor-restricted endowment funds fall under the provisions of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the state of Texas with an effective date of September 1, 2008. This policy defines the Museum's interpretation of the provisions of this law as they relate to the prudent management of its endowment fund.

Background

In July, 2006, the Uniform Law Commission (ULC) approved UPMIFA as a modernized version of the Uniform Management of Institutional Funds Act of 1972 (UMIFA) which governed the investment and management of donor-restricted endowment funds by not-for-profit organizations. The major change of the new law is that UPMIFA prescribes new guidelines for expenditure of a donor-restricted endowment fund when there are no explicit donor stipulations. These guidelines require the Museum to determine what constitutes prudent spending based upon consideration of the donor's intent that the endowment fund continues permanently, the purpose of the fund, and relevant economic factors. UPMIFA emphasizes the perpetuation of the purchasing power of the fund, not just the original dollars contributed to the fund. Although the Act does not require that a specified amount be set aside as principal, the Act assumes that an organization will preserve "principal" by maintaining the purchasing power of amounts contributed, and will spend "income" by making distributions using a reasonable spending rate.

Endowment "Principal" Interpretation

The Museum has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment (the "Principal"). The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as non-operating or temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA.

McNay Art Museum

Notes to Financial Statements

15. Endowment Funds (Continued)

Endowment Investment Objectives

Endowment investments are managed by professional money manager(s) under the direction of the Investment Committee of the Board of Trustees of the Museum. Funds are invested in a manner that seeks to produce results that meet or exceed the performance of generally recognized market indices, while assuming a moderate level of investment risk.

To satisfy this performance objective, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment "Income" Appropriation (Spending Policy)

The Museum's policy is to appropriate for distribution each year a percentage of its endowment fund's average fair value based on a 12-quarter rolling average as of March 31 of the preceding year. For the fiscal year ended June 30, 2017, the distribution percentage was 5%. The percentage will remain at 5% until further action by the Board of Trustees. In establishing this policy, the Museum considered the long-term expected return on its endowment.

Accordingly, over the long term, the Museum expects the spending policy to allow its endowment to grow at an average of 4% annually. 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 provide additional real growth through new gifts and investment return.

In accordance with UPMIFA, in all its endowment spending activity, the Museum considers the following factors in making a determination to appropriate (spend) 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 and investment market 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 Composition by Type of Fund as of June 30, 2017

	Unrestricted*	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 2,725,592	\$ 743,465	\$ -	\$ 3,469,057
Donor endowment funds	9,520,134	2,376,729	33,331,715	45,228,578
Total Funds	\$ 12,245,726	\$ 3,120,194	\$ 33,331,715	\$ 48,697,635

McNay Art Museum
Notes to Financial Statements

15. Endowment Funds (Continued)

Changes in Endowment for the Year Ended June 30, 2017

	Unrestricted*	Temporarily Restricted	Permanently Restricted	Total
Endowment, beginning of period	\$ 11,120,242	\$ 3,020,784	\$ 32,147,288	\$ 46,288,314
Investment Return:				
Interest and dividends	727,309	266,309	7,472	1,001,090
Net appreciation (realized and unrealized)	2,521,320	885,233	27,688	3,434,241
Total Investment Return	3,248,629	1,151,542	35,160	4,435,331
Contributions	7,667	-	1,000,100	1,007,767
Transfers	(2,130,812)	(149,167)	149,167	(2,130,812)
Release from restriction	-	(902,965)	-	(902,965)
Total Funds	\$ 12,245,726	\$ 3,120,194	\$ 33,331,715	\$ 48,697,635

Endowment Composition by Type of Fund as of June 30, 2016

	Unrestricted*	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 2,663,287	\$ 667,055	\$ -	\$ 3,330,342
Donor restricted funds	8,456,955	2,353,729	32,147,288	42,957,972
Total Funds	\$ 11,120,242	\$ 3,020,784	\$ 32,147,288	\$ 46,288,314

* Represents earnings on permanently endowed funds that are designated for operations and board designated endowments.

McNay Art Museum
Notes to Financial Statements

15. Endowment Funds (Continued)

Changes in Endowment for the Year Ended June 30, 2016

	Unrestricted*	Temporarily Restricted	Permanently Restricted	Total
Endowment, beginning of period	\$ 14,200,800	\$ 3,422,180	\$ 32,206,353	\$ 49,829,333
Investment Return:				
Interest and dividends	642,459	243,780	7,185	893,424
Net appreciation/(depreciation) (realized and unrealized)	(1,305,055)	87,960	2,768	(1,214,327)
Total Investment Return (Loss)	(662,596)	331,740	9,953	(320,903)
Contributions	8,476	-	200	8,676
Transfers	(2,426,438)	69,218	(69,218)	(2,426,438)
Release from restriction	-	(802,354)	-	(802,354)
Total Funds	\$ 11,120,242	\$ 3,020,784	\$ 32,147,288	\$ 46,288,314

* Represents earnings on permanently endowed funds that are designated for operations and board designated endowments.

16. Subsequent Events

Management has evaluated events subsequent to June 30, 2017 and through November 2, 2017, which is the date the financial statements were available to be issued.

Supplementary Information



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Independent Auditor's Report on Supplementary Information

Our audits of the financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report 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 audits 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.

BDO USA, LLP

November 2, 2017

McNay Art Museum
Schedule of Functional Expenses

Year ended June 30, 2017
(With Summarized Financial Information for the Year ended June 30, 2016)

	Program Services						Support Services			Totals	
	Curatorial and Conservation	Exhibitions and Presentations	Education	Museum Store	Library	Total Program Services	Management and General	Fund- raising	Total Support Services	2017	2016
	Salaries and wages	\$ 792,335	\$ 1,488,379	\$ 574,975	\$ 140,895	\$ 176,515	\$ 3,173,099	\$ 206,276	\$ 359,858	\$ 566,134	\$ 3,739,233
Payroll taxes	63,861	119,961	46,342	11,356	14,227	255,747	16,625	29,004	45,629	301,376	288,786
Employee benefits	156,387	293,770	113,487	27,809	34,840	626,293	40,715	71,027	111,742	738,035	624,172
Professional fees	177,720	538	3,873	1,088	-	183,219	199,046	128,813	327,859	511,078	694,022
Lectures	-	-	20,799	-	-	20,799	-	-	-	20,799	16,747
Supplies	16,046	22,976	37,329	2,517	4,795	83,663	25,778	8,905	34,683	118,346	189,427
Communications	4,144	4,698	2,521	669	692	12,724	18,589	5,081	23,670	36,394	33,273
Postage and freight	15,687	624	5,224	1	810	22,346	1,143	8,702	9,845	32,191	38,904
Occupancy	98,284	189,781	178,937	5,422	5,422	477,846	59,647	10,843	70,490	548,336	541,611
Equipment rental and maintenance	158,207	37,818	32,683	2,326	14,925	245,959	58,437	28,111	86,548	332,507	167,997
Printing and publication	10,462	6,489	18,037	635	2,518	38,141	11,587	73,119	84,706	122,847	146,087
Marketing, advertising and publicity	19,962	59,885	9,981	9,981	-	99,809	-	-	-	99,809	118,546
Travel	20,783	8,950	17,147	367	-	47,247	33,547	3,277	36,824	84,071	169,505
School busing	-	-	19,377	-	-	19,377	-	-	-	19,377	27,382
Conferences, seminars, and meetings	17,297	5,994	11,920	-	-	35,211	11,205	25,380	36,585	71,796	93,491
Organization dues and subscriptions	1,472	1,677	1,692	212	1,704	6,757	11,562	4,306	15,868	22,625	39,495
Insurance	150,864	30,052	17,172	8,586	8,586	215,260	5,152	-	5,152	220,412	209,726
Store cost of sales	-	-	-	151,832	-	151,832	-	-	-	151,832	144,616
Maintenance of Collection	44,198	-	-	-	-	44,198	-	-	-	44,198	76,808
Concerts, films, etc.	-	29,092	8,201	-	-	37,293	-	-	-	37,293	40,505
Library books	-	-	-	-	13,334	13,334	-	-	-	13,334	14,478
Exhibitions	-	790,372	-	-	-	790,372	-	-	-	790,372	1,167,826
Credit card fees	1,582	-	-	-	-	1,582	16,704	20,837	37,541	39,123	32,093
Miscellaneous	440	(16)	533	-	-	957	15,769	375	16,144	17,101	43,262
	1,749,731	3,091,040	1,120,230	363,696	278,368	6,603,065	731,782	777,638	1,509,420	8,112,485	8,564,265
Depreciation	338,801	697,531	657,672	19,930	19,929	1,733,863	219,224	39,859	259,083	1,992,946	2,078,590
Total Expenses	\$ 2,088,532	\$ 3,788,571	\$ 1,777,902	\$ 383,626	\$ 298,297	\$ 8,336,928	\$ 951,006	\$ 817,497	\$ 1,768,503	\$ 10,105,431	\$ 10,642,855

See independent auditor's report on supplementary information.