

**The Nelson Gallery Foundation and
The William Rockhill Nelson Trust**

Independent Auditor's Report and Consolidated Financial Statements

April 30, 2017 and 2016

**The Nelson Gallery Foundation and
The William Rockhill Nelson Trust**
April 30, 2017 and 2016

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Independent Auditor's Report

The Board of Trustees
The Nelson Gallery Foundation and
The William Rockhill Nelson Trust
Kansas City, Missouri

We have audited the accompanying consolidated financial statements of The Nelson Gallery Foundation and The William Rockhill Nelson Trust (collectively referred to as the "museum"), which comprise the consolidated statements of financial position as of April 30, 2017 and 2016, and the related consolidated statements of activities 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 April 30, 2017 and 2016, 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.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The consolidating statements of financial position and activities listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Kansas City, Missouri
August 24, 2017

**The Nelson Gallery Foundation and
The William Rockhill Nelson Trust
Consolidated Statements of Financial Position
April 30, 2017 and 2016**
(Dollars in thousands)

	2017	2016
Assets		
Current assets		
Cash	\$ 5,095	\$ 5,075
Short-term investments	11,521	12,976
Accounts receivable	319	448
Contributions receivable, at fair value	3,644	4,381
Other receivables	224	798
Bookstore inventory and prepaid expenses	528	351
Total current assets	21,331	24,029
Investments	376,447	365,962
Contributions receivable, at fair value	56,961	57,105
Property and equipment, net	208,930	208,617
Trusts held by others	43,257	40,641
Total assets	\$ 706,926	\$ 696,354
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,413	\$ 2,566
Bond interest payable	1,062	1,125
Bonds payable	22,391	22,170
Total current liabilities	25,866	25,861
Bonds payable	146,739	153,430
Accrued pension obligation	6,493	8,221
Total liabilities	179,098	187,512
Net Assets		
Unrestricted		
General undesignated	2,483	2,377
Board designated	270,829	248,775
Temporarily restricted	110,172	117,881
Permanently restricted	144,344	139,809
Total net assets	527,828	508,842
Total liabilities and net assets	\$ 706,926	\$ 696,354

**The Nelson Gallery Foundation and
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Consolidated Statements of Activities
Years Ended April 30, 2017 and 2016**
(Dollars in thousands)

	April 30, 2017				April 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Contributions	\$ 3,851	\$ 4,797	\$ 1,700	\$ 10,348	\$ 5,668	\$ 4,599	\$ -	\$ 10,267
Membership dues and fees	3,853	-	-	3,853	3,912	-	-	3,912
Admission fees	277	-	-	277	309	-	-	309
Program fees, royalties and other	715	-	-	715	503	-	-	503
Auxiliary activities	3,170	-	-	3,170	3,133	-	-	3,133
Program fees from The William Rockhill Nelson Trust	1,793	(1,793)	-	-	1,792	(1,792)	-	-
Investment return designated for current use	17,098	4,398	-	21,496	16,372	4,710	-	21,082
Net assets released from restrictions								
Satisfaction of program restrictions	8,943	(8,962)	19	-	6,533	(6,533)	-	-
Satisfaction of time restrictions	5,010	(5,010)	-	-	95	(98)	3	-
Satisfaction of capital acquisition restrictions	8,125	(8,125)	-	-	4,202	(4,202)	-	-
Total support and revenue	52,835	(14,695)	1,719	39,859	42,519	(3,316)	3	39,206
Expenses								
Curators, design and conservation	6,899	-	-	6,899	6,482	-	-	6,482
Special exhibitions	1,903	-	-	1,903	2,061	-	-	2,061
Education and library	3,848	-	-	3,848	3,444	-	-	3,444
Administration	3,574	-	-	3,574	2,589	-	-	2,589
Operations and security	7,551	-	-	7,551	7,184	-	-	7,184
Auxiliary activities	2,818	-	-	2,818	2,932	-	-	2,932
Membership services	1,437	-	-	1,437	1,556	-	-	1,556
Development and public information	1,614	-	-	1,614	2,077	-	-	2,077
Depreciation	8,312	-	-	8,312	8,358	-	-	8,358
Interest and debt issuance cost amortization	3,052	-	-	3,052	2,559	-	-	2,559
Total expenses	41,008	-	-	41,008	39,242	-	-	39,242
Change in Net Assets Before Other Items	11,827	(14,695)	1,719	(1,149)	3,277	(3,316)	3	(36)
Other Items								
Proceeds from sale of works of art / library volumes	1	-	7	8	3	-	24	27
Contributions for works of art / library volumes	-	-	420	420	-	-	84	84
Net assets released to fund art / library acquisitions	169	-	(169)	-	100	-	(100)	-
Cost of acquisition of art objects / library volumes	(170)	(82)	(1,624)	(1,876)	(153)	(225)	(985)	(1,363)
Investment return designated for art / library acquisitions	-	-	773	773	-	-	601	601
Investment return in excess of (less than) amounts designated for current operations and art / library acquisitions	8,571	7,055	806	16,432	(36,445)	(11,358)	(725)	(48,528)
Change in value of trusts held by others	-	13	2,603	2,616	-	(12)	179	167
Pension-related changes other than net periodic pension cost	1,762	-	-	1,762	(1,005)	-	-	(1,005)
Change in Net Assets	22,160	(7,709)	4,535	18,986	(34,223)	(14,911)	(919)	(50,053)
Net Assets, Beginning of Year	251,152	117,881	139,809	508,842	285,375	132,792	140,728	558,895
Net Assets, End of Year	\$ 273,312	\$ 110,172	\$ 144,344	\$ 527,828	\$ 251,152	\$ 117,881	\$ 139,809	\$ 508,842

See Notes to Consolidated Financial Statements

**The Nelson Gallery Foundation and
The William Rockhill Nelson Trust
Consolidated Statements of Cash Flows
Years Ended April 30, 2017 and 2016**

(Dollars in thousands)

	2017	2016
Operating Activities		
Change in net assets	\$ 18,986	\$ (50,053)
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	7,827	7,825
Net realized and unrealized (gains) losses on investments	(37,254)	29,030
Change in value of trusts held by others	(2,616)	(167)
Change in net assets due to acquisitions and dispositions of art and library collections	1,868	1,336
Contributions and investment income received restricted for Long-term investment	(1,700)	(50)
Acquisition of long-lived assets	(2,175)	(1,550)
Acquisition of art collections	(684)	(743)
Pension-related changes other than net periodic pension cost	(1,762)	1,005
Changes in		
Accounts and other receivables	707	(265)
Contributions receivables	(474)	33
Bookstore inventory and prepaid expenses	(177)	207
Accounts payable and accrued liabilities	(182)	1,461
	(17,636)	(11,931)
Investing Activities		
Purchase of investments	(52,640)	(32,264)
Proceeds from sale of investments	81,832	47,860
Purchase of property and equipment	(8,625)	(4,872)
Purchase of art and library collections	(1,876)	(1,363)
Proceeds from sale of art and library collections	8	27
	18,699	9,388
Financing Activities		
Contributions and investment income received restricted for		
Short-term investment	(972)	-
Long-term investment	85	148
Acquisition of long-lived assets	5,145	7,770
Acquisition of art collections	684	743
Principal payments on bonds payable	(5,985)	(5,790)
	(1,043)	2,871
Increase in Cash	20	328
Cash, Beginning of Year	5,075	4,747
Cash, End of Year	\$ 5,095	\$ 5,075
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 3,102	\$ 2,769

**The Nelson Gallery Foundation and
The William Rockhill Nelson Trust
Notes to Consolidated Financial Statements
April 30, 2017 and 2016**
(Dollars in thousands)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Nelson Gallery Foundation (the Foundation) is a charitable trust created in 1954 by the trustees of The William Rockhill Nelson Trust (the Trust). The Foundation and the Trust are two separate legal entities; however, the Trust operates solely for the benefit of the Foundation. Consolidated financial statements are presented as a result of this relationship and the entities are collectively referred to as the “museum” in the accompanying consolidated financial statements.

A common Board of Trustees serve the Foundation and Trust. The Trust provides for acquisitions of art for public exhibitions as well as providing operational support for the Foundation. Support for the Foundation is provided through program fees, which are determined pursuant to the spending policy. For the years ended April 30, 2017 and 2016, the Trust provided \$1,793 and \$1,792, respectively, as support for the operation of the museum.

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Foundation and the Trust. All significant intercompany balances and transactions have been eliminated.

Combined financial statements were presented for the year ended April 30, 2016. During 2017, the governance structure was modified to eliminate a separate governing board of trustees for The William Rockhill Nelson Trust. As a result, the museum is now required to report consolidated financial statements. This change had no impact on the amounts reported in the 2016 financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investments in common trust funds and alternative investments are recorded at net asset value, as a practical expedient, to determine fair value of the investments. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

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Investment returns are classified as unrestricted, temporarily restricted or permanently restricted based on the donor's intentions for the use of the income. Certain accumulated investment gains are classified as temporarily restricted, rather than unrestricted, due to donor preferences for use of the museum's spending policy. The spending policy determines investment returns that can be spent and investment returns that are retained as temporarily restricted funds functioning as endowment.

The museum maintains pooled investment accounts for its endowments. Investment income, net of fees, and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Short-term investments represent operating funds providing liquidity or funds that are intended to be added to long-term investments over time. These investments are invested in money market funds.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	15-40 years
Furniture, fixtures and equipment	3-10 years

Long-lived Asset Impairment

The museum evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended April 30, 2017 and 2016.

Trusts Held by Others

Trusts administered by third parties for the benefit of the museum are included in the consolidated financial statements, with changes in such amounts recorded in the consolidated statements of activities as changes in temporarily restricted or permanently restricted net assets. Periodic distributions of income are received from these trusts and are reported in the consolidated statements of activities as unrestricted, temporarily or permanently restricted revenue based on donor stipulations within the original trust agreement. During the years ended April 30, 2017 and 2016, the museum received distributions of \$1,079 and \$1,541, respectively.

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(Dollars in thousands)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the museum has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the museum in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at fair value by discounting the expected future cash flows.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Contributed Services

Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The museum received 48,374 and 47,396 (unaudited) hours of contributed time during the years ended April 30, 2017 and 2016, respectively, from unpaid volunteers. These hours do not meet the two recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying consolidated financial statements.

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Collections

In conformity with accounting policies generally followed by art museums, the collections that were acquired through purchases by the Board of Trustees and contributions since the inception are not recognized as assets on the consolidated statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as decreases in temporarily or permanently restricted net assets if the assets used to purchase the items were restricted by donors. Contributed collection items are not reflected on the consolidated financial statements. Proceeds from deaccessions are reflected as increases in the permanent net asset class.

The museum maintains comprehensive fine arts collections of approximately 40,000 (unaudited) pieces spanning approximately 5,000 years and many cultures. The respective collections are used for the purposes of exhibition, education, study, research, publications and loans to other museums. The collections are kept under curatorial care, including extensive conservation practices and specialized fine arts insurance coverage, and are subject to the museum's policies that require proceeds from the sale of collection items to be used only for acquisition of additional, same-collection items.

All collection items deaccessioned during the years ended April 30, 2017 and 2016 were placed on consignment with art dealers to be sold in the ordinary course of business; as a consequence, some deaccessioned items remain unsold on consignment at year-end. No collection items were given away, destroyed, lost or stolen during the years ended April 30, 2017 and 2016.

Income Taxes

The museum is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the museum is subject to federal income tax on any unrelated business taxable income. The museum files tax returns in the U.S. federal jurisdiction.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

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Reclassifications

Certain reclassifications have been made to the 2016 combined financial statements to conform to the 2017 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

During the year ending April 30, 2017, the museum changed their presentation of investment return within the statement of activities in order to provide enhanced information regarding support provided through the museum's endowment spending policy. Due to the change in presentation, investment return disclosed in support and revenue and the investment return in other items designated for art/library acquisitions is the amount of investment return that has been approved for appropriation as calculated by the museum's spending policy. The remaining investment return disclosed in other items, represents the total investment return earned during the year, net of the amount appropriated, and will be subject to the spending policy in future periods. The 2016 statement of activities was updated to reflect this change in presentation, resulting in \$47,979 of investment return being reclassified from support and revenue to other items.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were issued.

Note 2: Contributions Receivable

Contributions receivable at April 30 consisted of the following unconditional promises to give with discount rates ranging from 1.9% to 8%:

	2017	2016
Due within one year	\$ 3,644	\$ 4,690
Due in one to five years	7,760	7,525
Due in more than five years	73,009	74,149
	84,413	86,364
Less		
Allowance for uncollectible contributions	(506)	(800)
Unamortized discount	(23,302)	(24,078)
	\$ 60,605	\$ 61,486

**The Nelson Gallery Foundation and
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Bequests and other commitments amounting to \$22,787 and \$22,797 at April 30, 2017 and 2016, respectively, are considered to be conditional promises to give and, as such, have not been reflected in the accompanying consolidated financial statements.

Pursuant to an agreement entered into with a donor during the fiscal year ended April 30, 2004, the museum recorded a contribution receivable in the amount of \$60,000, net of discount. Under the terms of the agreement, the donor is unconditionally obligated to make contributions equal in amount to all required interest and principal payments as they become due on the outstanding Series 2004A tax-exempt bonds (see *Note 5*) for the purpose of meeting the museum's obligation to make such payments.

As permitted by Topic 825, the museum has elected to measure contributions receivable at fair value primarily due to the agreement discussed in the preceding paragraph. Under the fair value option, the contribution receivable associated with the agreement is adjusted on a recurring basis to correspond with the anticipated future cash flows for principle and interest payments on the related bonds payable based on current market interest rates. Changes in fair value of contributions receivable and the related offsetting changes in the unamortized discount in the table above resulted in no gains or losses on the accompanying consolidated statements of activities for the years ending April 30, 2017 and 2016.

Note 3: Long-term Investments and Investment Return

Long-term Investments

Long-term investments at April 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash equivalent funds	\$ 398	\$ 734
U.S. government and agency obligations	-	4,990
Domestic equity securities	22,334	20,333
International equity securities	1,743	950
Mutual funds	-	13,318
Common trust funds - U.S. fixed income strategies	69,431	68,895
Common trust funds - U.S. equity strategies	58,731	48,146
Common trust funds - international strategies	30,719	27,283
Alternative investments	193,091	181,313
	<u>\$ 376,447</u>	<u>\$ 365,962</u>

**The Nelson Gallery Foundation and
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Investment Return

Total investment return is comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 2,914	\$ 3,794
Net realized and unrealized gains (losses)	37,254	(29,030)
Investment fees	<u>(1,467)</u>	<u>(1,609)</u>
	<u>\$ 38,701</u>	<u>\$ (26,845)</u>

Total investment return is reflected in the consolidated statements of activities as follows:

	<u>2017</u>	<u>2016</u>
Support and Revenue		
Investment return designated for current use	\$ 21,496	\$ 21,082
Other Items		
Investment return designated for art / library acquisitions	773	601
Investment return in excess of (less than) amounts designated for current operations and art / library acquisitions	<u>16,432</u>	<u>(48,528)</u>
	<u>\$ 38,701</u>	<u>\$ (26,845)</u>

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Long-term Investments at Net Asset Value

At April 30, 2017 and 2016, the museum held the following investments in certain entities that calculate net asset value per share or its equivalent.

	Fair Value		Unfunded Commitments		Redemption Frequency	Redemption Notice Period
	2017	2016	2017	2016		
Common trust fund - U.S. fixed income strategies (A)	\$ 69,431	\$ 68,895	N/A	N/A	Daily	2 days
Common trust fund - U.S. equity strategies (A)	58,731	48,146	N/A	N/A	Daily/Monthly	2 - 8 days
Common trust funds - international strategies (A)	30,719	27,283	N/A	N/A	Monthly/Semi- Monthly	5 - 30 days
Global equity marketable partnerships (B)	80,333	69,803	N/A	N/A	Monthly/Semi- Monthly	10 - 30 days
Multi-strategy hedge funds (C)	29,910	28,449	N/A	N/A	Monthly	5 - 8 days
Multi-strategy hedge funds (C)	74,655	76,567	N/A	N/A	Limited	Quarterly/Semi- Annually/ Annually
Private equity funds (D)	5,198	2,487	\$ 9,944	\$ 2,444	Non-redeemable	None
Distressed opportunity funds (E)	2,995	4,007	3,017	2,886	Non-redeemable	None
	<u>\$ 351,972</u>	<u>\$ 325,637</u>	<u>\$ 12,961</u>	<u>\$ 5,330</u>		

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(Dollars in thousands)

- (A) Common trust funds permit the commingling or pooling of investors' money into one account (known as a common fund) for the purpose of creating a single investment. Because they are a bank product, common trust funds are not required to be registered with the Securities and Exchange Commission and they are not considered to be a security under state and federal securities laws. Much like mutual funds, common trust funds strike a net asset value on a periodic basis and have varying investment strategies that primarily include investments in traditional assets such as domestic and international equity, fixed income securities and other securities. The museum's investments in common trust funds may be redeemed at net asset value on a daily, semi-monthly, or monthly basis, depending on the fund.
- (B) Marketable partnership interests include investments in limited partnerships that seek capital appreciation and income by managing assets in investment pools, investment partnerships and similar entities (*i.e.*, a fund of funds). Fair value has been estimated using the net asset value per share of the investments. The marketable partnership interests are available for redemption on a semi-monthly or monthly basis, depending on the fund.
- (C) Multi-strategy hedge funds include investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. Investments representing approximately 71% and 73% as of April 30, 2017 and 2016, respectively, of the value of investments in this category may be redeemed on a limited basis quarterly, semi-annually or annually. The remaining value of investments may be redeemed on a monthly basis.
- (D) Private equity funds are structured as closed-end, commitment-based investment funds where the museum commits a specified amount of capital upon inception of the fund (*i.e.*, committed capital) which is then drawn down over a specified period of the fund's life. Such funds generally do not provide redemption options for investors and, subsequent to final closing, do not permit commitments by new or existing investors.
- (E) Distressed opportunity funds invest in direct and indirect investments in privately and publicly issued debt securities and privately issued equity securities of companies that are currently experiencing financial and/or operational distress. This fund will liquidate on the later of (i) December 2017 or (ii) one year after the date by which all investments have been liquidated and all obligations have been terminated.

**The Nelson Gallery Foundation and
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Note 4: Property and Equipment

Property and equipment at April 30 consisted of:

	<u>2017</u>	<u>2016</u>
Land	\$ 9,447	\$ 9,447
Buildings and improvements	278,592	266,093
Furniture, fixtures and equipment	12,352	12,683
Capital lease	219	219
Construction-in-progress	<u>1,051</u>	<u>5,013</u>
	301,661	293,455
Less accumulated depreciation	<u>(92,731)</u>	<u>(84,838)</u>
	<u><u>\$ 208,930</u></u>	<u><u>\$ 208,617</u></u>

Note 5: Bonds Payable

Bonds payable at April 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cultural Facilities Revenue Bonds, Series 2004A (A)	\$ 57,000	\$ 57,000
Cultural Facilities Revenue Bonds, Series 2008A (B)	60,000	60,000
Cultural Facilities Revenue Bonds, Series 2010A (C)	20,265	23,120
Cultural Facilities Revenue Bonds, Series 2012A (D)	<u>30,430</u>	<u>33,560</u>
	167,695	173,680
Add unamortized premium	2,771	3,415
Less unamortized debt issuance costs	(1,336)	(1,495)
Less current maturities of bonds payable, net	<u>(22,391)</u>	<u>(22,170)</u>
	<u><u>\$ 146,739</u></u>	<u><u>\$ 153,430</u></u>

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At the request of and for the benefit of the museum, the Missouri Development Finance Board (the MDFB), a bond issuer for Missouri nonprofit organizations, issued a total of six series of bonds and made the proceeds of such bonds available to the museum under separate loan agreements. Of these six series of bonds, two of them have been paid in full and the four remaining series are:

- (A) \$60,000 in tax-exempt, Variable Rate Demand Cultural Facilities Revenue Bonds were issued in April 2004. The proceeds were used to finance costs of improvements and additions to the museum, to pay interest during construction and other costs related to the issuance of the bonds. Payments on this series of bonds are secured by a donation agreement (see *Note 2*). The donor chose to make a voluntary \$3,000 reduction of the series balance in December 2014. Bonds are payable at various dates from 2029 through 2033 with daily interest rates ranging from 0.01% to 0.95% during fiscal years 2017 and 2016. The interest rates are reset daily by a remarketing agent based upon current market conditions.
- (B) \$108,500 in tax-exempt, Variable Rate Demand Cultural Facilities Revenue Bonds were issued in August 2008. The proceeds were used to refund and redeem variable rate bonds issued by the MDFB in 2001, to finance costs of improvements and additions to the museum, to pay interest during construction and other costs related to the issuance of the bonds. \$48,500 was refunded with the issuance of the Series 2012A Bonds. The bonds are payable December 1, 2037 with daily interest rates ranging from 0.01% to 0.89% during fiscal years 2017 and 2016. The interest rates are reset daily by a remarketing agent based upon current market conditions.
- (C) \$33,895 in tax-exempt, Cultural Facilities Revenue Bonds were issued in March 2010. The proceeds were used to refund and redeem a portion of the fixed rate bonds issued by the MDFB in 2001. The bonds are payable at various dates through 2022, with annual interest rates ranging from 3.25% to 5.00% during fiscal years 2017 and 2016.
- (D) \$42,415 in tax-exempt, Cultural Facilities Revenue Bonds were issued in August 2012. The proceeds were used to refund and redeem a portion of the MDFB's \$108,500 Series 2008A Bonds. The bonds are payable at various dates through 2024, with annual interest rates ranging from 3.00% to 5.00% during fiscal years 2017 and 2016.

The Series 2004A and 2008A Bonds are also subject to daily optional tender by the holders thereof and may become due as a result of such tender. The Series 2004A and 2008A Bonds are each supported by liquidity facilities in the form of standby bond purchase agreements. These agreements support the payment of the tender price for the variable rate term bonds and require that the principal of these bonds purchased by the liquidity provider that are not remarketed must be paid over a five-year period in ten equal semiannual installments and over a three-year period in six equal semiannual installments, respectively, beginning the first June or December that is at least six months after the purchase. If a purchase was to occur under the liquidity facilities, the museum would be required to make one principal payment within the next fiscal year; therefore, \$15,700 is classified as a current liability. While the bonds are held by the liquidity provider, the bonds bear interest at a market-based rate. The liquidity facilities related to the Series 2004A Bonds expire on January 27, 2018 and the Series 2008A Bonds expire on December 19, 2019.

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The liquidity facility supporting the Series 2008A Bonds requires the museum to comply with various covenants, including maintaining a liquidity ratio of at least 110% of puttable debt. At April 30, 2017 and 2016, the museum was in compliance with this financial covenant.

Aggregate annual maturities of bonds payable, assuming none of the bonds are tendered by the holder thereof and excluding the current portion amortization of bond premium and debt issuance costs of \$436, at April 30, 2017 are:

2018	\$	6,255
2019		6,525
2020		6,845
2021		7,185
2022		7,545
Thereafter		133,340
	\$	167,695

Total interest expense included in the consolidated statements of activities was \$3,042 and \$2,706 for the years ended April 30, 2017 and 2016, respectively.

Note 6: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at April 30 were available for the following purposes or periods:

	2017	2016
Curators and collections management		
Curatorial programs and galleries	\$ 15,104	\$ 13,412
Publications	1,335	1,413
Special exhibitions	2,225	1,839
Education and library	1,136	635
Conservation science	500	277
Technology initiative	2,225	1,053
Multiple program activities	2,604	2,414
General	27,356	31,352
Building, equipment and other	57,687	65,486
	\$ 110,172	\$ 117,881

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Permanently Restricted Net Assets

Permanently restricted net assets at April 30 were restricted to:

	<u>2017</u>	<u>2016</u>
Investment in art and library	\$ 7,165	\$ 7,561
Investment in perpetuity, the income from which is expendable to support Curators, permanent exhibitions and publications		
Curatorial programs and galleries	35,252	33,552
Publications	963	963
Special exhibitions	8,487	8,375
Education and library	12,769	12,769
Conservation science	1,855	1,855
Art acquisition	32,749	30,686
Multiple program activities	16,435	15,841
General	<u>28,669</u>	<u>28,207</u>
	<u>\$ 144,344</u>	<u>\$ 139,809</u>

Net Assets Released from Restrictions

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

	<u>2017</u>	<u>2016</u>
Program restrictions		
Curators and collections management	\$ 2,841	\$ 1,819
Special exhibitions	1,752	1,310
Education and library	1,888	2,143
Other program-related purposes	<u>2,462</u>	<u>1,261</u>
Program restrictions satisfied	8,943	6,533
Time restrictions expired	5,010	95
Capital acquisition restrictions satisfied	<u>8,125</u>	<u>4,202</u>
Total release from restrictions in support and revenue	<u>\$ 22,078</u>	<u>\$ 10,830</u>

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Note 7: Endowment

The museum's endowment consists of 63 individual funds established for a variety of purposes. The endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The museum's governing body has interpreted the Uniform Prudent Management of Institutional Funds Act (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: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as 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. In accordance with UPMIFA, the museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the museum and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the museum
7. Investment policies of the museum

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The composition of net assets by type of endowment fund at April 30 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
April 30, 2017				
Donor-restricted funds	\$ (1,786)	\$ 37,559	\$ 92,512	\$ 128,285
Board-designated funds	243,153	-	-	243,153
	<u>241,367</u>	<u>37,559</u>	<u>92,512</u>	<u>371,438</u>
Total endowment funds	<u>\$ 241,367</u>	<u>\$ 37,559</u>	<u>\$ 92,512</u>	<u>\$ 371,438</u>
April 30, 2016				
Donor-restricted funds	\$ (2,888)	\$ 32,554	\$ 91,885	\$ 121,551
Board-designated funds	230,985	-	-	230,985
	<u>228,097</u>	<u>32,554</u>	<u>91,885</u>	<u>352,536</u>
Total endowment funds	<u>\$ 228,097</u>	<u>\$ 32,554</u>	<u>\$ 91,885</u>	<u>\$ 352,536</u>

Temporarily restricted endowment net assets represent the portion of donor-restricted endowment funds subject to a time restriction under UPMIFA. The portion of temporarily restricted endowment funds with purpose restrictions were \$13,435 and \$8,757 as of April 30, 2017 and 2016, respectively. The portion of temporarily restricted endowment funds without purpose restrictions was \$25,824 and \$23,797 as of April 30, 2017 and 2016, respectively.

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Changes in endowment net assets for the years ended April 30 were:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 228,097	\$ 32,554	\$ 91,885	\$ 352,536
Investment return				
Net investment income	131	59	4	194
Net realized and unrealized gains	24,881	10,776	800	36,457
Total investment return	25,012	10,835	804	36,651
Contributions	190	63	22	275
Appropriation of endowment assets for expenditure	(16,942)	(5,883)	(199)	(23,024)
Other transfers	5,010	(10)	-	5,000
Endowment net assets, end of year	<u>\$ 241,367</u>	<u>\$ 37,559</u>	<u>\$ 92,512</u>	<u>\$ 371,438</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 264,398	\$ 45,233	\$ 92,469	\$ 402,100
Investment return (loss)				
Net investment income	379	163	13	555
Net realized and unrealized losses	(21,108)	(6,768)	(582)	(28,458)
Total investment loss	(20,729)	(6,605)	(569)	(27,903)
Contributions	50	(124)	-	(74)
Appropriation of endowment assets for expenditure	(15,717)	(5,855)	(15)	(21,587)
Other transfers	95	(95)	-	-
Endowment net assets, end of year	<u>\$ 228,097</u>	<u>\$ 32,554</u>	<u>\$ 91,885</u>	<u>\$ 352,536</u>

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Return Objectives and Risk Parameters

The museum adopted an investment and spending policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the museum must hold in perpetuity or for a donor-specific period(s), as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an average annual real total return of at least 5%-6% with a standard deviation of returns in the range of 12%. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy their long-term rate-of-return objectives, 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 alternative investments to achieve their long-term objective within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The current spending policy of the museum is made up of support generated from the operating endowments and support generated from a separate board-designated endowment fund. Support from the operating endowments are calculated: (1) at approximately 30% of the long-term spending rate of 5% applied to the average of the four calendar quarter, average market values of the endowments, plus (2) 70% of the endowment spending allowed for the previous fiscal year, adjusted for inflation. Support is appropriated from endowment gifts received after December 31 of the preceding calendar year at 5% of the gift amount, prorated on a monthly basis.

Board-designated funds are also maintained to which spending policy does not apply. These funds provide support for a variety of purposes, including capital projects, debt service and operations. The Finance Committee, as part of the annual budget proposal, recommends a level of capital and operational support to be provided by these funds for the coming year. For the fiscal years ended April 30, 2017 and 2016, the Board of Trustees approved \$162 and \$1,069, respectively, in support of capital projects and additional operational support from these funds.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the museum to retain as a fund of perpetual duration. Deficiencies of this nature, which are reported in unrestricted net assets, were \$1,786 and \$2,888 as of April 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

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Note 8: Functional Expense Allocation

Expenses presented in the consolidated statements of activities have been summarized by major department. Management allocates indirect expenses within these departments among program, management and general and fundraising categories based on the time expended, usage and other methods as shown below:

	2017			
	Program	Management and General	Fundraising	Total
Curators, design and conservation	\$ 6,415	\$ 223	\$ 261	\$ 6,899
Special exhibitions	1,903	-	-	1,903
Education and library	3,848	-	-	3,848
Administration	1,227	2,142	205	3,574
Operations and security	6,144	1,134	273	7,551
Auxiliary activities	2,818	-	-	2,818
Membership services	-	474	963	1,437
Development and public information	446	245	923	1,614
Depreciation	7,065	831	416	8,312
Interest and debt issuance cost amortization	2,594	305	153	3,052
	<u>\$ 32,460</u>	<u>\$ 5,354</u>	<u>\$ 3,194</u>	<u>\$ 41,008</u>
	2016			
	Program	Management and General	Fundraising	Total
Curators, design and conservation	\$ 6,040	\$ 236	\$ 206	\$ 6,482
Special exhibitions	2,061	-	-	2,061
Education and library	3,444	-	-	3,444
Administration	405	2,034	150	2,589
Operations and security	5,594	1,215	375	7,184
Auxiliary activities	2,932	-	-	2,932
Membership services	-	471	1,085	1,556
Development and public information	472	277	1,328	2,077
Depreciation	6,686	1,003	669	8,358
Interest and debt issuance cost amortization	2,047	307	205	2,559
	<u>\$ 29,681</u>	<u>\$ 5,543</u>	<u>\$ 4,018</u>	<u>\$ 39,242</u>

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Note 9: Pension Plan

The museum has a noncontributory defined-benefit pension plan covering all of its salaried and certain hourly employees. The benefits are based on years of service and the participant's final average earnings as defined by the plan. The museum's policy is to make quarterly contributions to the plan equal to minimum amounts required under its funding policy in accordance with the *Employee Retirement Income Security Act of 1974* (ERISA), as determined by an actuary. The museum expects to contribute \$920 to the plan in 2018.

The museum uses an April 30 measurement date for the plan. Information about the plan's funded status follows:

	<u>2017</u>	<u>2016</u>
Benefit obligation	\$ 17,826	\$ 17,743
Fair value of plan assets	<u>11,333</u>	<u>9,522</u>
Funded status	<u>\$ (6,493)</u>	<u>\$ (8,221)</u>

Reconciliation of beginning and ending benefit obligation:

	<u>2017</u>	<u>2016</u>
Benefit obligation, beginning of year	\$ 17,743	\$ 16,375
Service costs	814	742
Interest costs	677	641
Actuarial (gain) loss	257	155
Assumption changes	(1,239)	274
Benefits paid	<u>(426)</u>	<u>(444)</u>
Benefit obligation, end of year	<u>\$ 17,826</u>	<u>\$ 17,743</u>

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Reconciliation of beginning and ending fair value of plan assets:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets, beginning of year	\$ 9,522	\$ 9,824
Actual gain (loss) on plan assets	1,024	(53)
Employer contributions	1,213	195
Benefits paid	<u>(426)</u>	<u>(444)</u>
Fair value of plan assets, end of year	<u>\$ 11,333</u>	<u>\$ 9,522</u>

Amounts recognized in change in net assets not yet recognized as components of net periodic benefit cost consist of:

	<u>2017</u>	<u>2016</u>
Net loss	<u>\$ 4,733</u>	<u>\$ 6,495</u>

The components of net periodic benefit costs consist of:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 814	\$ 742
Interest costs	677	641
Expected return on plan assets	(642)	(626)
Amortization of net loss	<u>398</u>	<u>103</u>
Net periodic benefit cost	<u>\$ 1,247</u>	<u>\$ 860</u>

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Other changes in plan assets and benefit obligations recognized in change in net assets:

	<u>2017</u>	<u>2016</u>
Amounts arising during the period		
Net loss (gain)	\$ (125)	\$ 834
Amounts reclassified as components of net periodic benefit costs of the period		
Amortization of net loss	(398)	(103)
Assumption changes	<u>(1,239)</u>	<u>274</u>
Pension-related changes other than net periodic pension costs	<u>\$ (1,762)</u>	<u>\$ 1,005</u>

The estimated net loss that will be amortized into net periodic benefit cost over the next fiscal year is \$256.

Significant assumptions include:

	<u>2017</u>	<u>2016</u>
Weighted-average assumptions used to determine benefit obligations		
Discount rate	3.9%	3.7%
Rate of compensation increase	3.0%	3.0%
Weighted-average assumptions used to determine benefit costs		
Discount rate	3.7%	3.8%
Expected long-term rate of return	6.3%	6.5%
Rate of compensation increase	3.0%	3.0%
Mortality tables	MP 2016 Blue Collar	RP 2014 Blue Collar

The current assumption for the expected long-term rate of return on plan assets is determined by analyzing: (1) historical average returns, (2) historical data on the volatility of returns, (3) current yields available in the marketplace, (4) actual returns on plan assets, and (5) current and anticipated future allocation among asset classes.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of April 30, 2017:

2018	\$	662
2019		693
2020		737
2021		755
2022		801
2023-2027		4,861

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include mutual funds and domestic equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include fixed income securities. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. The plan holds no Level 3 assets.

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The fair values of the museum's pension plan assets at April 30, 2017 and 2016, by asset class are as follows:

	2017			
	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Mutual funds				
Money market fund	\$ 693	\$ 693	\$ -	\$ -
Fixed income funds	544	544	-	-
Domestic equity funds	2,002	2,002	-	-
International equity funds	1,553	1,553	-	-
Domestic equity securities	2,849	2,849	-	-
Fixed income securities				
U.S. government and agency obligations	1,445	-	1,445	-
Corporate bonds	2,121	-	2,121	-
Other	126	126	-	-
	<u>\$ 11,333</u>	<u>\$ 7,767</u>	<u>\$ 3,566</u>	<u>\$ -</u>

	2016			
	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Mutual funds				
Money market fund	\$ 150	\$ 150	\$ -	\$ -
Fixed income funds	532	532	-	-
Domestic equity funds	1,378	1,378	-	-
International equity funds	1,146	1,146	-	-
Domestic equity securities	2,565	2,565	-	-
Fixed income securities				
U.S. government and agency obligations	1,733	-	1,733	-
Corporate bonds	1,971	-	1,971	-
Other	47	-	47	-
	<u>\$ 9,522</u>	<u>\$ 5,771</u>	<u>\$ 3,751</u>	<u>\$ -</u>

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The stated target mix by asset class for the plan is equity securities, 35% to 65%; fixed income securities, 30% to 60%; and cash equivalents, 0% to 15%. Target allocations will be reviewed annually. The strategic goal is to achieve an optimal rate of return at an acceptable level of investment risk in order to provide for the payment of benefits. Invested assets in the plan are large cap equities; small cap equities; international equities; high-quality, fixed income securities; and cash equivalents.

The actual asset allocation percentages for 2017 and 2016 are as follows:

	2017	2016
Asset category		
Equity securities	57%	53%
Fixed income securities	37%	45%
Cash equivalents	6%	2%
	100%	100%

Note 10: Disclosures About Fair Value of Assets and Liabilities

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at April 30, 2017 and 2016:

	2017			
	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Long-term investments				
Cash equivalents	\$ 398	\$ 398	\$ -	\$ -
Domestic equity securities	22,334	22,334	-	-
International equity securities	1,743	1,743	-	-
	24,475	24,475	-	-
Contributions receivable	60,605	-	60,605	-
Trusts held by others	43,257	-	8,821	34,436
	\$ 128,337	\$ 24,475	\$ 69,426	\$ 34,436

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	2016			
	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Long-term investments				
Cash equivalents	\$ 734	\$ 734	\$ -	\$ -
U.S. government and agency obligations	4,990	-	4,990	-
Domestic equity securities	20,333	20,333	-	-
International equity securities	950	950	-	-
Mutual funds	13,318	13,318	-	-
	<u>40,325</u>	<u>35,335</u>	<u>4,990</u>	<u>-</u>
Contributions receivable	61,486	-	61,486	-
Trusts held by others	<u>40,641</u>	<u>-</u>	<u>8,214</u>	<u>32,427</u>
	<u>\$ 142,452</u>	<u>\$ 35,335</u>	<u>\$ 74,690</u>	<u>\$ 32,427</u>

Long-term investments included in the fair value hierarchy table above reconcile to the total investments as shown in the consolidated statements of financial position as follows:

	2017	2016
Long-term investments recorded at fair value	\$ 24,475	\$ 40,325
Long-term investments recorded at net asset value	<u>351,972</u>	<u>325,637</u>
Total long-term investments	<u>\$ 376,447</u>	<u>\$ 365,962</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended April 30, 2017. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Long-term Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 investments.

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Contributions Receivable

The fair value of contributions receivable is estimated at the present value of the future payments expected to be received using rates of return on assets with similar cash flows and, therefore, are classified within Level 2 of the valuation hierarchy.

Trusts Held by Others

The fair value of the trusts held by others is estimated at the present value of the future distributions expected to be received over the term of the agreement, which is equivalent to the museum's beneficial interest in the fair value of the trust assets. Trusts held by others are classified within Level 2 of the hierarchy if the fair value of the underlying investments are determined through quoted market prices or other observable inputs and the museum expects to have the ability to redeem the trust assets in the near term. Beneficial interests in which the museum will never have the ability to redeem are classified within Level 3 of the hierarchy.

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at April 30, 2017 and 2016:

	<u>Fair Value</u> <u>4/30/2017</u>	<u>Fair Value</u> <u>4/30/2016</u>	<u>Valuation</u> <u>Technique</u>	<u>Unobservable</u> <u>Inputs</u>	<u>Range</u> <u>(Weighted</u> <u>Average)</u>
Trusts held by others	\$ 34,436	\$ 32,427	Estimated value of the expected future cash flows	Fair value of the underlying assets as reported by the trustee	N/A

The change in fair value of trusts held by others for the years ended April 30, 2017 and 2016 was \$2,009 and \$707, respectively.

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Cash

At April 30, 2017 and 2016, the museum's cash accounts exceeded federally insured limits by \$4,924 and \$4,859, respectively.

**The Nelson Gallery Foundation and
The William Rockhill Nelson Trust**
Notes to Consolidated Financial Statements
April 30, 2017 and 2016
(Dollars in thousands)

Contributions Receivable

Approximately 94% and 93% of all contributions receivable were from one donor in 2017 and 2016, respectively. As discussed in *Notes 2 and 5*, the large outstanding contribution receivable relates to the guarantee received on the Series 2004A tax-exempt bonds.

Investments

The museum invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market 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 change could materially affect the amounts reported in the accompanying consolidated statements of financial position.

Pension Benefit Obligations

The museum has a noncontributory defined benefit pension plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit plan obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Litigation

The museum is subject to a claim that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claim will not have a material adverse effect on the financial position, change in net assets and cash flows of the museum. Events could occur that would change this estimate materially in the near term.

Supplementary Schedules

**The Nelson Gallery Foundation and
The William Rockhill Nelson Trust
Consolidating Statement of Financial Position**

April 30, 2017

(Dollars in thousands)

	The Nelson Gallery Foundation	The William Rockhill Nelson Trust	Consolidated
Assets			
Current assets			
Cash	\$ 2,595	\$ 2,500	\$ 5,095
Short-term investments	9,906	1,615	11,521
Accounts receivable	319	-	319
Contributions receivable, at fair value	3,644	-	3,644
Other receivables	224	-	224
Bookstore inventory and prepaid expenses	528	-	528
Total current assets	17,216	4,115	21,331
Investments	340,103	36,344	376,447
Contributions receivable, at fair value	56,961	-	56,961
Property and equipment, net	208,900	30	208,930
Trusts held by others	18,634	24,623	43,257
Total assets	<u>\$ 641,814</u>	<u>\$ 65,112</u>	<u>\$ 706,926</u>
Liabilities and Net Assets			
Current liabilities			
Accounts payable and accrued liabilities	\$ 2,413	\$ -	\$ 2,413
Bond interest payable	1,062	-	1,062
Bonds payable	22,391	-	22,391
Total current liabilities	25,866	-	25,866
Bonds payable	146,739	-	146,739
Accrued pension obligation	6,493	-	6,493
Total liabilities	<u>179,098</u>	<u>-</u>	<u>179,098</u>
Net Assets			
Unrestricted			
General undesignated	2,483	-	2,483
Board designated	270,829	-	270,829
Temporarily restricted	86,081	24,091	110,172
Permanently restricted	103,323	41,021	144,344
Total net assets	<u>462,716</u>	<u>65,112</u>	<u>527,828</u>
Total liabilities and net assets	<u>\$ 641,814</u>	<u>\$ 65,112</u>	<u>\$ 706,926</u>

**The Nelson Gallery Foundation and
The William Rockhill Nelson Trust
Consolidating Statement of Financial Position**

April 30, 2016

(Dollars in thousands)

	The Nelson Gallery Foundation	The William Rockhill Nelson Trust	Consolidated
Assets			
Current assets			
Cash	\$ 2,575	\$ 2,500	\$ 5,075
Short-term investments	10,889	2,087	12,976
Accounts receivable	448	-	448
Contributions receivable, at fair value	4,381	-	4,381
Other receivables	798	-	798
Bookstore inventory and prepaid expenses	351	-	351
Total current assets	19,442	4,587	24,029
Investments	331,442	34,520	365,962
Contributions receivable, at fair value	57,105	-	57,105
Property and equipment, net	208,587	30	208,617
Trusts held by others	17,454	23,187	40,641
Total assets	<u>\$ 634,030</u>	<u>\$ 62,324</u>	<u>\$ 696,354</u>
Liabilities and Net Assets			
Current liabilities			
Accounts payable and accrued liabilities	\$ 2,565	\$ 1	\$ 2,566
Bond interest payable	1,125	-	1,125
Bonds payable	22,170	-	22,170
Total current liabilities	25,860	1	25,861
Bonds payable	153,430	-	153,430
Accrued pension obligation	8,221	-	8,221
Total liabilities	<u>187,511</u>	<u>1</u>	<u>187,512</u>
Net Assets			
Unrestricted			
General undesignated	2,377	-	2,377
Board designated	248,775	-	248,775
Temporarily restricted	95,417	22,464	117,881
Permanently restricted	99,950	39,859	139,809
Total net assets	<u>446,519</u>	<u>62,323</u>	<u>508,842</u>
Total liabilities and net assets	<u>\$ 634,030</u>	<u>\$ 62,324</u>	<u>\$ 696,354</u>

**The Nelson Gallery Foundation and
The William Rockhill Nelson Trust
Consolidating Statement of Activities
Year Ended April 30, 2017
(Dollars in thousands)**

	The Nelson Gallery Foundation				The William Rockhill Nelson Trust				Consolidated
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Foundation	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Trust	
Support and Revenue									
Contributions	\$ 3,851	\$ 4,797	\$ 1,700	\$ 10,348	\$ -	\$ -	\$ -	\$ -	\$ 10,348
Membership dues and fees	3,853	-	-	3,853	-	-	-	-	3,853
Admission fees	277	-	-	277	-	-	-	-	277
Program fees, royalties and other	715	-	-	715	-	-	-	-	715
Auxiliary activities	3,170	-	-	3,170	-	-	-	-	3,170
Program fees from The William Rockhill Nelson Trust	1,793	-	-	1,793	-	(1,793)	-	(1,793)	-
Investment return designated for current use	17,098	4,413	-	21,511	-	(15)	-	(15)	21,496
Net assets released from restrictions									
Satisfaction of program restrictions	8,943	(8,962)	19	-	-	-	-	-	-
Satisfaction of time restrictions	5,010	(5,010)	-	-	-	-	-	-	-
Satisfaction of capital acquisition restrictions	8,125	(8,125)	-	-	-	-	-	-	-
Total support and revenue	52,835	(12,887)	1,719	41,667	-	(1,808)	-	(1,808)	39,859
Expenses									
Curators, design and conservation	6,899	-	-	6,899	-	-	-	-	6,899
Special exhibitions	1,903	-	-	1,903	-	-	-	-	1,903
Education and library	3,848	-	-	3,848	-	-	-	-	3,848
Administration	3,574	-	-	3,574	-	-	-	-	3,574
Operations and security	7,551	-	-	7,551	-	-	-	-	7,551
Auxiliary activities	2,818	-	-	2,818	-	-	-	-	2,818
Membership services	1,437	-	-	1,437	-	-	-	-	1,437
Development and public information	1,614	-	-	1,614	-	-	-	-	1,614
Depreciation	8,312	-	-	8,312	-	-	-	-	8,312
Interest and debt issuance cost amortization	3,052	-	-	3,052	-	-	-	-	3,052
Total expenses	41,008	-	-	41,008	-	-	-	-	41,008
Change in Net Assets Before Other Items	11,827	(12,887)	1,719	659	-	(1,808)	-	(1,808)	(1,149)
Other Items									
Proceeds from sale of works of art / library volumes	1	-	-	1	-	-	7	7	8
Contributions for works of art / library volumes	-	-	420	420	-	-	-	-	420
Net assets released to fund art / library acquisitions	169	-	(169)	-	-	-	-	-	-
Cost of acquisition of art objects / library volumes	(170)	(82)	(583)	(835)	-	-	(1,041)	(1,041)	(1,876)
Investment return designated for art / library acquisitions	-	-	200	200	-	-	573	573	773
Investment return in excess of (less than) amounts designated for current operations and art / library acquisitions	8,571	3,620	619	12,810	-	3,435	187	3,622	16,432
Change in value of trusts held by others	-	13	1,167	1,180	-	-	1,436	1,436	2,616
Pension-related changes other than net periodic pension cost	1,762	-	-	1,762	-	-	-	-	1,762
Change in Net Assets	22,160	(9,336)	3,373	16,197	-	1,627	1,162	2,789	18,986
Net Assets, Beginning of Year	251,152	95,417	99,950	446,519	-	22,464	39,859	62,323	508,842
Net Assets, End of Year	\$ 273,312	\$ 86,081	\$ 103,323	\$ 462,716	\$ -	\$ 24,091	\$ 41,021	\$ 65,112	\$ 527,828

**The Nelson Gallery Foundation and
The William Rockhill Nelson Trust
Consolidating Statement of Activities
Year Ended April 30, 2016
(Dollars in thousands)**

	The Nelson Gallery Foundation				The William Rockhill Nelson Trust				Consolidated
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Foundation	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Trust	
Support and Revenue									
Contributions	\$ 5,668	\$ 4,599	\$ -	\$ 10,267	\$ -	\$ -	\$ -	\$ -	\$ 10,267
Membership dues and fees	3,912	-	-	3,912	-	-	-	-	3,912
Admission fees	309	-	-	309	-	-	-	-	309
Program fees, royalties and other	503	-	-	503	-	-	-	-	503
Auxiliary activities	3,133	-	-	3,133	-	-	-	-	3,133
Program fees from The William Rockhill Nelson Trust	1,792	-	-	1,792	-	(1,792)	-	(1,792)	-
Investment return appropriated for spending - operations	16,372	4,742	-	21,114	-	(32)	-	(32)	21,082
Net assets released from restrictions									
Satisfaction of program restrictions	6,533	(6,533)	-	-	-	-	-	-	-
Satisfaction of time restrictions	95	(98)	3	-	-	-	-	-	-
Satisfaction of capital acquisition restrictions	4,202	(4,202)	-	-	-	-	-	-	-
Total support and revenue	42,519	(1,492)	3	41,030	-	(1,824)	-	(1,824)	39,206
Expenses									
Curators, design and conservation	6,482	-	-	6,482	-	-	-	-	6,482
Special exhibitions	2,061	-	-	2,061	-	-	-	-	2,061
Education and library	3,444	-	-	3,444	-	-	-	-	3,444
Administration	2,589	-	-	2,589	-	-	-	-	2,589
Operations and security	7,184	-	-	7,184	-	-	-	-	7,184
Auxiliary activities	2,932	-	-	2,932	-	-	-	-	2,932
Membership services	1,556	-	-	1,556	-	-	-	-	1,556
Development and public information	2,077	-	-	2,077	-	-	-	-	2,077
Depreciation	8,358	-	-	8,358	-	-	-	-	8,358
Interest and debt issuance cost amortization	2,559	-	-	2,559	-	-	-	-	2,559
Total expenses	39,242	-	-	39,242	-	-	-	-	39,242
Change in Net Assets Before Other Items	3,277	(1,492)	3	1,788	-	(1,824)	-	(1,824)	(36)
Other Items									
Proceeds from sale of works of art / library volumes	3	-	-	3	-	-	24	24	27
Contributions for works of art / library volumes	-	-	84	84	-	-	-	-	84
Net assets released to fund art / library acquisitions	100	-	(100)	-	-	-	-	-	-
Cost of acquisition of art objects / library volumes	(153)	(225)	(137)	(515)	-	-	(848)	(848)	(1,363)
Investment return appropriated for spending - art acquisitions	-	-	15	15	-	-	586	586	601
Investment return in excess of (less than) amounts appropriated for spending	(36,445)	(8,755)	(597)	(45,797)	-	(2,603)	(128)	(2,731)	(48,528)
Change in value of trusts held by others	-	(12)	(1,567)	(1,579)	-	-	1,746	1,746	167
Pension-related changes other than net periodic pension cost	(1,005)	-	-	(1,005)	-	-	-	-	(1,005)
Change in Net Assets	(34,223)	(10,484)	(2,299)	(47,006)	-	(4,427)	1,380	(3,047)	(50,053)
Net Assets, Beginning of Year	285,375	105,901	102,249	493,525	-	26,891	38,479	65,370	558,895
Net Assets, End of Year	\$ 251,152	\$ 95,417	\$ 99,950	\$ 446,519	\$ -	\$ 22,464	\$ 39,859	\$ 62,323	\$ 508,842