

**John P. McGovern Museum  
of Health & Medical Science**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2019 and 2018

# John P. McGovern Museum of Health & Medical Science

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## Independent Auditors' Report

To the Board of Trustees of  
John P. McGovern Museum of Health & Medical Science:

We have audited the accompanying financial statements of John P. McGovern Museum of Health & Medical Science, which comprise the statements of financial position as of December 31, 2019 and 2018 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

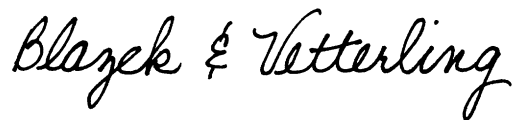
**Management's Responsibility for the Financial Statements** – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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.

**Auditors' 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 our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 John P. McGovern Museum of Health & Medical Science as of December 31, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



August 4, 2020

## John P. McGovern Museum of Health & Medical Science

Statements of Financial Position as of December 31, 2019 and 2018

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	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 634,639	\$ 742,059
Inventory and other assets	34,871	46,659
Contributions receivable	182,000	
Investments restricted for endowment ( <i>Notes 4 and 5</i> )	15,081,038	13,458,013
Property, net ( <i>Note 6</i> )	<u>7,243,176</u>	<u>7,854,900</u>
TOTAL ASSETS	<u>\$ 23,175,724</u>	<u>\$ 22,101,631</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 216,064	\$ 128,751
Deferred revenue	<u>49,764</u>	<u>59,850</u>
Total liabilities	<u>265,828</u>	<u>188,601</u>
Net assets:		
Without donor restrictions	7,645,858	8,455,017
With donor restrictions ( <i>Note 7</i> )	<u>15,264,038</u>	<u>13,458,013</u>
Total net assets	<u>22,909,896</u>	<u>21,913,030</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,175,724</u>	<u>\$ 22,101,631</u>

*See accompanying notes to financial statements.*

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## John P. McGovern Museum of Health & Medical Science

Statement of Activities for the year ended December 31, 2019

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 974,101	\$ 183,000	\$ 1,157,101
Special event	367,457		367,457
Direct donor benefit	(83,266)		(83,266)
Admission fees	452,542		452,542
Membership revenue	61,741		61,741
Gift shop sales	110,412		110,412
Education program fees	442,310		442,310
Facility rental and parking fees	201,162		201,162
Net investment return		<u>2,118,199</u>	<u>2,118,199</u>
Total revenue	2,526,459	2,301,199	4,827,658
Net assets released from restrictions:			
Investment earnings distributed from endowments	<u>495,174</u>	<u>(495,174)</u>	
Total	<u>3,021,633</u>	<u>1,806,025</u>	<u>4,827,658</u>
EXPENSES:			
Program services:			
Museum programs	2,889,929		2,889,929
Gift shop	<u>79,945</u>		<u>79,945</u>
Total program services	2,969,874		2,969,874
Management and general	418,528		418,528
Advertising and public relations	101,562		101,562
Fundraising	<u>340,828</u>		<u>340,828</u>
Total expenses	<u>3,830,792</u>		<u>3,830,792</u>
CHANGES IN NET ASSETS	(809,159)	1,806,025	996,866
Net assets, beginning of year	<u>8,455,017</u>	<u>13,458,013</u>	<u>21,913,030</u>
Net assets, end of year	<u>\$ 7,645,858</u>	<u>\$ 15,264,038</u>	<u>\$ 22,909,896</u>

*See accompanying notes to financial statements.*

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## John P. McGovern Museum of Health & Medical Science

Statement of Activities for the year ended December 31, 2018

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 1,106,417		\$ 1,106,417
Special event	348,163		348,163
Direct donor benefit	(103,718)		(103,718)
Admission fees	324,078		324,078
Membership revenue	86,038		86,038
Gift shop sales	110,699		110,699
Education program fees	563,357		563,357
Facility rental and parking fees	183,570		183,570
Net investment return		\$ (513,474)	(513,474)
Total revenue	2,618,604	(513,474)	2,105,130
Net assets released from restrictions:			
Investment earnings distributed from endowments	465,363	(465,363)	
Total	3,083,967	(978,837)	2,105,130
EXPENSES:			
Program services:			
Museum programs	3,001,679		3,001,679
Gift shop	76,906		76,906
Total program services	3,078,585		3,078,585
Management and general	346,332		346,332
Advertising and public relations	203,409		203,409
Fundraising	351,862		351,862
Total expenses	3,980,188		3,980,188
CHANGES IN NET ASSETS	(896,221)	(978,837)	(1,875,058)
Net assets, beginning of year	9,351,238	14,436,850	23,788,088
Net assets, end of year	\$ 8,455,017	\$ 13,458,013	\$ 21,913,030

*See accompanying notes to financial statements.*

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## John P. McGovern Museum of Health & Medical Science

### Statement of Functional Expenses for the year ended December 31, 2019

	MUSEUM PROGRAMS	GIFT SHOP	MANAGEMENT AND GENERAL	ADVERTISING AND PUBLIC RELATIONS	FUNDRAISING	TOTAL
Payroll and related expenses	\$ 1,183,743	\$ 21,019	\$ 278,749	\$ 13,979	\$ 195,167	\$ 1,692,657
Depreciation	611,068		10,000		10,000	631,068
Contract labor	271,623	706	15,669		18,808	306,806
Traveling exhibits maintenance and set-up fees	185,834					185,834
Professional fees	81,530		35,541		10,731	127,802
Utilities	101,112		13,290		12,755	127,157
Program supplies	107,689	84	183	348	4,119	112,423
Repairs and maintenance	88,354	1,023	7,359		7,359	104,095
Subscription and dues	67,370	387	13,923		14,090	95,770
Advertising	2,873			81,390	10,670	94,933
Rent	59,782		7,473		7,473	74,728
Travel	31,679	317	20,337	5,766	4,536	62,635
Printing and mailing	21,325	3,164	3,372		27,325	55,186
Insurance	43,383		5,423		5,423	54,229
Costs of sales		52,142				52,142
Bank and credit card fees	26,213	45	3,491		10,189	39,938
Office supplies	6,351	1,058	3,718	79	2,183	13,389
Total expenses	<u>\$ 2,889,929</u>	<u>\$ 79,945</u>	<u>\$ 418,528</u>	<u>\$ 101,562</u>	<u>\$ 340,828</u>	3,830,792
Direct donor benefit						<u>83,266</u>
Total						<u>\$ 3,914,058</u>

*See accompanying notes to financial statements.*

## John P. McGovern Museum of Health & Medical Science

Statement of Functional Expenses for the year ended December 31, 2018

	MUSEUM PROGRAMS	GIFT SHOP	MANAGEMENT AND GENERAL	ADVERTISING AND PUBLIC RELATIONS	FUNDRAISING	TOTAL
Payroll and related expenses	\$ 1,087,739	\$ 22,848	\$ 246,052		\$ 211,751	\$ 1,568,390
Depreciation	707,046		1,955		1,664	710,665
Contract labor	296,177	335	662		38,508	335,682
Traveling exhibits maintenance and set-up fees	229,854					229,854
Professional fees	105,291		40,827	\$ 7,000	13,072	166,190
Utilities	117,068		3,224		2,693	122,985
Program supplies	128,569	550	884		9,060	139,063
Repairs and maintenance	92,662		426		447	93,535
Subscription and dues	51,705		16,080		28,285	96,070
Advertising				196,409		196,409
Rent	53,966		11,814		8,812	74,592
Travel	19,135	114	16,247		5,763	41,259
Printing and mailing	24,344		2,379		30,186	56,909
Insurance	47,020		4,277		439	51,736
Costs of sales		51,164				51,164
Bank and credit card fees	38,134		137		1,025	39,296
Office supplies	2,969	1,895	1,368		157	6,389
Total expenses	<u>\$ 3,001,679</u>	<u>\$ 76,906</u>	<u>\$ 346,332</u>	<u>\$ 203,409</u>	<u>\$ 351,862</u>	3,980,188
Direct donor benefit						<u>103,718</u>
Total						<u>\$ 4,083,906</u>

See accompanying notes to financial statements.



## John P. McGovern Museum of Health & Medical Science

### Statements of Cash Flows for the years ended December 31, 2019 and 2018

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	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 996,866	\$ (1,875,058)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	631,068	710,665
Net realized and unrealized (gain) loss on investments	(1,720,899)	793,449
Changes in operating assets and liabilities:		
Inventory and other assets	11,788	109,564
Contributions receivable	(182,000)	30,000
Accounts payable and accrued expenses	87,313	(89,293)
Deferred revenue	<u>(10,086)</u>	<u>(31,088)</u>
Net cash used by operating activities	<u>(185,950)</u>	<u>(351,761)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(5,013,016)	(7,550,561)
Proceeds from sales or maturities of investments	5,042,080	7,926,404
Net change in money market mutual funds held as investments	68,810	(190,455)
Purchases of property	<u>(19,344)</u>	<u>(147,622)</u>
Net cash provided by investing activities	<u>78,530</u>	<u>37,766</u>
<b>NET CHANGE IN CASH</b>	<b>(107,420)</b>	<b>(313,995)</b>
Cash, beginning of year	<u>742,059</u>	<u>1,056,054</u>
Cash, end of year	<u>\$ 634,639</u>	<u>\$ 742,059</u>

*See accompanying notes to financial statements.*

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## John P. McGovern Museum of Health & Medical Science

Notes to Financial Statements for the years ended December 31, 2019 and 2018

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### NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – John P. McGovern Museum of Health & Medical Science (the Museum) is an interactive and entertaining experience for all ages that promotes understanding and appreciation of the human body, mind and spirit and inspires a lifelong commitment to health and wellness. The Museum is a Texas nonprofit corporation located in the Museum District in Houston, Texas.

Federal income tax status – The Museum is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Cash equivalents are highly liquid financial instruments with original maturity dates of three months or less.

Concentration of credit risk – Bank deposits exceed the federally insured limit per depositor per institution.

Inventory and other assets include gift shop inventory available for sale and is reported at the lower of average cost or net realizable value.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property is reported at cost for purchased assets and fair value at the date of gift if donated. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 40 years. Museum exhibits are depreciated using the straight-line method based on the estimated useful life of 10 years.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the term of the time restriction. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Restricted contributions whose purpose is met in the same reporting period are recognized as unrestricted contributions and increase *net assets without donor restrictions*. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Non-cash contributions – Donated materials and use of facilities are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial 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. A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration, and fundraising for which no amount has been recognized in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Special event revenue represents amounts paid by donors, sponsors, and attendees of a fundraising event and is recognized when the event occurs. Amounts received for future events represent conditional contributions and are reported in the statement of financial position as deferred revenue until earned. Direct donor benefit costs represent the cost of goods and services provided to attendees of special events.

Admission fees are recognized at the time of admission. Admission fees provide the patron access to the general exhibits of the Museum. The special exhibits require additional admission fees. There are certain pricing concessions based on age. There are no contract assets or liabilities related to these transactions.

Membership revenue is derived from membership dues, which are nonrefundable, and provide members with access to various benefits including admission for one-year, discounted parking, discounts at the Amazing Body Store, limited access to special exhibits, plus a variety of other benefits. Membership dues are payable at the beginning of the membership period. The Museum recognizes the membership dues evenly over the membership period. The Museum considers the benefits offered as commensurate value of the price of the memberships. Amounts received in advance are recorded as deferred revenue. The amount of payments received in advance are \$33,283 and \$35,996 as of December 31, 2019 and 2018, respectively. There are no contract assets related to these transactions.

Gift shop sales are recognized when goods are provided. There are discounts provided to members. There are no contract assets or liabilities related to these transactions.

Education program fees represent programs offered to groups. Programs offered typically provide participants admission to the Museum's exhibits, as well as other services such as experiments, camps, and a variety of other classes. The programs offered come either standard and are publicized, or they are negotiated depending on the group's requested services. Pricing of the programs vary and depend on the level of services provided. The fees are due at a predetermined date prior to the event and typically require a deposit. Revenue is recognized upon the delivery of services. Refunds are provided if the group cancels prior to the reserved date. Amounts received in advance are recorded as deferred revenue. The amount of payments received in advance are \$16,481 and \$23,854 as of December 31, 2019 and 2018, respectively. There are no contract assets related to these transactions.

Facility rental and parking are fees associated with the right of use of space. The revenue is recognized at a point in time when services are provided. Discounts are offered to members and other select groups at the discretion of management. There are no contract assets or liabilities related to these transactions.

Advertising costs are expensed as incurred.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy costs are allocated based on square footage.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

## NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS

The Museum adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU and all subsequently clarifying ASU's replaced most existing revenue recognition guidance in generally accepted accounting principles. The ASU also required expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Museum adopted the new standard effective January 1, 2019, using the full retrospective method.

In conjunction with the adoption of ASU 2014-09, the Museum adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. The Museum adopted the new standard effective January 1, 2019. Adoption of this ASU had no impact on total beginning net assets.

## NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31 comprise the following:

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 634,639	\$ 742,059
Accounts receivable		16,834
Contributions receivable	182,000	
Investments restricted for endowment	<u>15,081,038</u>	<u>13,458,013</u>
Total financial assets	15,897,677	14,216,906
Less financial assets not available for general expenditure:		
Donor-restricted endowment investments not approved for use in the coming year	<u>(14,549,038)</u>	<u>(12,948,013)</u>
Total financial assets available for general expenditure	<u>\$ 1,348,639</u>	<u>\$ 1,268,893</u>

The Museum has \$1,348,639 of financial assets available to meet cash needs for general expenditures consisting of cash of \$634,639, contributions receivable of \$182,000, and the 2020 Board of Trustees approved an endowment appropriation of \$532,000. The Museum has a goal to maintain available financial assets, which consist of cash and accounts receivable, on hand to meet 60 days of normal operating expense. The Museum has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Museum considers all expenditures related to its ongoing activities of providing program services, as well as the conduct of services undertaken to support those activities, to be general expenditures.

#### NOTE 4 – INVESTMENTS

Investments consist of the following:

	<u>2019</u>	<u>2018</u>
Equity mutual funds	\$ 6,355,580	\$ 4,980,372
Fixed-income mutual fund	4,214,836	3,128,443
Corporate bonds	2,516,672	2,210,090
U. S. Treasury bonds	642,863	988,409
U. S. Government agency securities	489,647	1,447,979
U. S. Treasury notes	418,691	190,917
Private real estate limited partnership investment fund	300,355	300,599
Money market mutual funds	<u>142,394</u>	<u>211,204</u>
Total investments	<u>\$ 15,081,038</u>	<u>\$ 13,458,013</u>

Investments are exposed various risks such as interest rate, market and credit risks. In addition to risks associated with other investments, alternative investments in securities other than stocks and bonds include additional risks because of their complex nature and limited regulations resulting in a greater risk of losing invested capital. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Details of the Museum's alternative investments are as follows:

<u>STRATEGY</u>	<u>2019 FAIR VALUE</u>	<u>2018 FAIR VALUE</u>	<u>REMAINING LIFE FOR LOCK-OUT PERIOD</u>	<u>REDEMPTION TERMS</u>
The fund invests in and sells undeveloped land in Harris County, Texas and adjacent counties, as well as San Antonio, Texas. The strategy is to purchase and sell raw land for eventual suburban development.	\$300,355	\$300,599	None	Limited partners will not be permitted to withdraw from the partnership or to withdraw any portion of their capital accounts, except under certain limited circumstances.

## NOTE 5 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. 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. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Domestic large-cap blend	\$ 1,638,934			\$ 1,638,934
Domestic large-cap growth	1,581,669			1,581,669
International large-cap value	1,560,567			1,560,567
Domestic small-cap value	798,566			798,566
Domestic small-cap growth	775,844			775,844
Fixed-income mutual fund	4,214,836			4,214,836
Corporate bonds		\$ 2,516,672		2,516,672
U. S. Treasury bonds		642,863		642,863
U. S. Government agency securities		489,647		489,647
U. S. Treasury notes		418,691		418,691
Private real estate limited partnership investment fund			\$ 300,355	300,355
Money market mutual funds	<u>142,394</u>			<u>142,394</u>
Total assets measured at fair value	<u>\$10,712,810</u>	<u>\$ 4,067,873</u>	<u>\$ 300,355</u>	<u>\$15,081,038</u>

Assets measured at fair value at December 31, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Domestic large-cap blend	\$ 1,240,409			\$ 1,240,409
Domestic large-cap growth	1,266,668			1,266,668
International large-cap value	1,271,055			1,271,055
Domestic small-cap value	597,644			597,644
Domestic small-cap growth	604,596			604,596
Fixed-income mutual fund	3,128,443			3,128,443
Corporate bonds		\$ 2,210,090		2,210,090
U. S. Treasury bonds		988,409		988,409
U. S. Government agency securities		1,447,979		1,447,979
U. S. Treasury notes		190,917		190,917
Private real estate limited partnership investment fund			\$ 300,599	300,599
Money market mutual funds	<u>211,204</u>			<u>211,204</u>
Total assets measured at fair value	<u>\$ 8,320,019</u>	<u>\$ 4,837,395</u>	<u>\$ 300,599</u>	<u>\$13,458,013</u>

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value.
- *Corporate bonds, U. S. Treasury bonds and notes, and U. S. Government agency securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves, and broker quotes to calculate fair values.
- *Private real estate limited partnership investment fund* is valued based upon information provided by the general partners of the fund. Management takes into consideration consultation with fund managers and audited financial information to determine the overall reasonableness of the fair market value.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in the fair value of Level 3 investments for the year ended December 31 consist of the following:

Balance at December 31, 2017	\$ 331,674
Distributions	(71,560)
Net unrealized gain	<u>40,485</u>
Balance at December 31, 2018	300,599
Distributions	(9,277)
Net unrealized gain	<u>9,033</u>
Balance at December 31, 2019	<u>\$ 300,355</u>

#### NOTE 6 – PROPERTY

Property consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 595,912	\$ 595,912
Buildings and improvements	10,558,452	10,552,273
Exhibits	4,998,309	4,998,309
Furniture and equipment	<u>395,765</u>	<u>382,600</u>
Total property, at cost	16,548,438	16,529,094
Accumulated depreciation	<u>(9,305,262)</u>	<u>(8,674,194)</u>
Property, net	<u>\$ 7,243,176</u>	<u>\$ 7,854,900</u>

## NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Time-restricted	\$ 170,000	
Environmental health module	13,000	
Endowments subject to spending policy and appropriation:		
McGovern endowment for general operating support	12,753,129	\$ 11,376,040
General endowment for general operating support	<u>2,327,909</u>	<u>2,081,973</u>
Total net assets with donor restrictions	<u>\$ 15,264,038</u>	<u>\$ 13,458,013</u>

## NOTE 8 – ENDOWMENT FUNDS

The endowment funds of the Museum include two funds that were established with donor-restricted contributions for general operating support. The Museum is subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), which has been enacted by the State of Texas. The Board of Trustees of the Museum has interpreted TUPMIFA as requiring a focus on the entirety of donor-restricted endowment funds, including the original gift amount and net appreciation. TUPMIFA provides guidelines about what constitutes prudent spending and explicitly requires consideration of preservation of the fund.

As a result of this interpretation, the Museum classifies as *net assets with donor restrictions* the original value of gifts donated to the perpetual endowment and accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The portion of earnings on the endowment fund that is not required to be added to the corpus is to be used for general operations of the Museum, in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance, with TUPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Museum and the donor-restricted endowment fund
- The terms of specific agreements with respect to endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Museum
- The investment policies of the Museum

### 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 TUPMIFA require the Museum to retain as a fund of perpetual duration. These deficiencies resulted from continued distributions and unfavorable market fluctuations and related economic conditions that have occurred. At December 31, 2018, funds with original gift values of \$14,503,528, fair values of \$13,458,013, and deficiencies of \$1,045,515 are classified as *net assets with donor restrictions*.



## Investment Objectives

In order to meet its needs, the investment strategy of 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.

## Spending Policy

The Museum has adopted a spending policy which allows an annual distribution of a maximum of 5% of a three-year rolling average (as of December 31) of only 70% of the McGovern portion of the endowment and up to 5% of 100% of the non-McGovern portion of the endowment. The Finance Committee shall review the spending policy from time to time and adjust the formula for maximum distributions based upon current needs and upon its determination of a prudent maximum sustainable spending rate based upon its judgment of expected available investment returns.

Changes in endowment net assets are as follows:

	<u>WITH DONOR RESTRICTIONS</u>		
	<u>ACCUMULATED</u>	<u>REQUIRED TO BE</u>	
	<u>NET INVESTMENT</u>	<u>MAINTAINED</u>	
	<u>RETURN</u>	<u>IN PERPETUITY</u>	<u>TOTAL</u>
Endowment net assets, December 31, 2017	\$ 154,063	\$14,282,787	\$14,436,850
Net investment return	(734,215)	220,741	(513,474)
Distributions	<u>(465,363)</u>	<u>                    </u>	<u>(465,363)</u>
Endowment net assets, December 31, 2018	<u>(1,045,515)</u>	<u>14,503,528</u>	<u>13,458,013</u>
Net investment return	1,970,268	147,931	2,118,199
Distributions	<u>(495,174)</u>	<u>                    </u>	<u>(495,174)</u>
Endowment net assets, December 31, 2019	<u>\$ 429,579</u>	<u>\$14,651,459</u>	<u>\$15,081,038</u>

Endowment net asset composition are as follows:

	<u>2019</u>	<u>2018</u>
	<u>WITH DONOR</u>	<u>WITH DONOR</u>
	<u>RESTRICTIONS</u>	<u>RESTRICTIONS</u>
Donor-restricted endowment funds:		
Original donor-restricted gift and amounts required to be maintained in perpetuity	\$14,651,459	\$14,503,528
Accumulated net investment return	<u>429,579</u>	<u>(1,045,515)</u>
Endowment net assets	<u>\$15,081,038</u>	<u>\$13,458,013</u>

## **NOTE 9 – RETIREMENT PLAN**

The Museum maintains a tax deferred annuity plan that qualifies under §403(b) of the Internal Revenue Code. The plan is an arrangement whereby an amount to be determined year-to-year at the employer's discretion is paid to an annuity contract owned by the employee. The Museum contributed approximately \$27,000 and \$0 to the plan during 2019 and 2018, respectively.

## **NOTE 10 – RELATED PARTY TRANSACTIONS**

The second floor of the Museum building houses offices of the Harris County Medical Society (the Society) and the Houston Academy of Medicine (the Academy). The Board of Trustees of the Society appoints nine of the forty-one members of the Board of Trustees of the Museum. The Society's Board of Trustees also serves as the Board of Trustees of the Academy. The Academy is responsible for building management and pays for related maintenance expenses. Other operating costs also are allocated based on a cost-share method between organizations. Costs exclusive to an organization are directly billed and are not allocated between organizations. When one organization incurs expense on behalf of another, it bills the other entity.

The Museum paid the Academy approximately \$77,000 and \$75,000 in 2019 and 2018, respectively, for rental of space on the second floor of the Museum building owned by the Academy. The rental rate is based upon estimated market rental rates plus operating costs. At December 31, 2019, the Museum has an outstanding commitment of \$78,390 related to this lease for fiscal year 2020. In addition, for the years ended December 31, 2019 and 2018, the Museum paid approximately \$166,000 and \$197,000, respectively, to the Academy for its share of allocated building operating costs, and approximately \$139,000 and \$99,000 as reimbursement of direct and other shared operating costs. The net total amount paid by the Museum for building and other operating costs was approximately \$305,000 and \$296,000 in 2019 and 2018, respectively.

The Academy made contributions of approximately \$150,000 to the Museum in both 2019 and 2018. At December 31, 2019 and 2018, the Museum owed the Society and the Academy a total of \$24,965 and \$41,280, respectively, for rent and reimbursement of expenses.

The Society collected membership dues for the Museum totaling \$23,589 and \$28,984 in 2019 and 2018, respectively.

## **NOTE 11 – CONCENTRATIONS**

At December 31, 2019, approximately 82% of contributions receivable is due from one donor. During 2019, contributions from two donors accounted for 23% of total contributions.

## **NOTE 12 – SUBSEQUENT EVENTS**

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States. Financial markets have been severely impacted by fears that the COVID-19 pandemic will push the global economy into recession. The U. S. stock market experienced a significant decline and

remains volatile resulting in a substantial decline in the fair value of the Museum's investments subsequent to December 31, 2019. The Museum did pursue and was successful in securing financial relief under legislation passed by the Federal government in the form of an unsecured Small Business Administration Paycheck Protection Program (PPP) loan. The \$298,500 loan bears interest at 1.0% and may be repaid over 2 years. The loan and related interest may be forgiven, in whole or in part, if the funds are used for the intended purposes over a specified period. The extent of the impact of COVID-19 on the Museum's operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on its members, employees, and vendors all of which are uncertain and cannot be predicted. Therefore, while the Museum expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Management has evaluated subsequent events through August 4, 2020, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

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