

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

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2021 and 2020

John P. McGovern Museum of Health & Medical Science

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of December 31, 2021 and 2020	3
Statement of Activities for the year ended December 31, 2021	4
Statement of Activities for the year ended December 31, 2020	5
Statement of Functional Expenses for the year ended December 31, 2021	6
Statement of Functional Expenses for the year ended December 31, 2020	7
Statements of Cash Flows for the years ended December 31, 2021 and 2020	8
Notes to Financial Statements for the years ended December 31, 2021 and 2020	9

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of John P. McGovern Museum of Health & Medical Science, which comprise the statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of John P. McGovern Museum of Health & Medical Science as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of John P. McGovern Museum of Health & Medical Science and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about John P. McGovern Museum of Health & Medical Science's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that

includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 John P. McGovern Museum of Health & Medical Science's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about John P. McGovern Museum of Health & Medical Science's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blazek & Vetterling

September 27, 2022

John P. McGovern Museum of Health & Medical Science

Statements of Financial Position as of December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 1,402,120	\$ 648,880
Inventory and other assets	36,682	33,303
Contributions receivable	142,500	
Investments restricted for endowment (<i>Notes 3 and 4</i>)	16,702,785	16,029,385
Property, net (<i>Note 5</i>)	<u>6,556,738</u>	<u>7,028,079</u>
TOTAL ASSETS	<u>\$ 24,840,825</u>	<u>\$ 23,739,647</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 203,920	\$ 67,908
Deferred revenue	<u>11,172</u>	<u>22,311</u>
Total liabilities	<u>215,092</u>	<u>90,219</u>
Net assets:		
Without donor restrictions	7,922,948	7,620,043
With donor restrictions (<i>Notes 6 and 7</i>)	<u>16,702,785</u>	<u>16,029,385</u>
Total net assets	<u>24,625,733</u>	<u>23,649,428</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,840,825</u>	<u>\$ 23,739,647</u>

See accompanying notes to financial statements.

John P. McGovern Museum of Health & Medical Science

Statement of Activities for the year ended December 31, 2021

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 1,555,232		\$ 1,555,232
Special event	299,150		299,150
Cost of direct donor benefits	(58,678)		(58,678)
Admission fees	238,274		238,274
Membership revenue	57,451		57,451
Gift shop sales	78,736		78,736
Education program fees	140,742		140,742
Facility rental and parking fees	112,590		112,590
PPP loan forgiveness	298,500		298,500
Net investment return	<u> </u>	\$ 1,331,543	<u>1,331,543</u>
Total revenue	2,721,997	1,331,543	4,053,540
Net assets released from restrictions:			
Investment earnings distributed from endowments	<u>658,143</u>	<u>(658,143)</u>	<u> </u>
Total	<u>3,380,140</u>	<u>673,400</u>	<u>4,053,540</u>
EXPENSES:			
Program services:			
Museum programs	2,115,708		2,115,708
Gift shop	<u>43,301</u>		<u>43,301</u>
Total program services	2,159,009		2,159,009
Management and general	467,162		467,162
Advertising and public relations	106,576		106,576
Fundraising	<u>344,488</u>		<u>344,488</u>
Total expenses	<u>3,077,235</u>		<u>3,077,235</u>
CHANGES IN NET ASSETS	302,905	673,400	976,305
Net assets, beginning of year	<u>7,620,043</u>	<u>16,029,385</u>	<u>23,649,428</u>
Net assets, end of year	<u>\$ 7,922,948</u>	<u>\$ 16,702,785</u>	<u>\$ 24,625,733</u>

See accompanying notes to financial statements.

John P. McGovern Museum of Health & Medical Science

Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 1,050,364		\$ 1,050,364
Admission fees	115,775		115,775
Membership revenue	49,303		49,303
Gift shop sales	27,418		27,418
Education program fees	51,631		51,631
Facility rental and parking fees	146,048		146,048
PPP loan forgiveness	298,500		298,500
Net investment return		\$ 1,580,776	1,580,776
Total revenue	1,739,039	1,580,776	3,319,815
Net assets released from restrictions:			
Investment earnings distributed from endowments	632,429	(632,429)	
Program expenditures	13,000	(13,000)	
Expiration of time	170,000	(170,000)	
Total	2,554,468	765,347	3,319,815
EXPENSES:			
Program services:			
Museum programs	2,178,868		2,178,868
Gift shop	40,507		40,507
Total program services	2,219,375		2,219,375
Management and general	355,378		355,378
Advertising and public relations	51,048		51,048
Fundraising	333,353		333,353
Total expenses	2,959,154		2,959,154
CHANGES IN NET ASSETS	(404,686)	765,347	360,661
Net assets, beginning of year	8,024,729	15,264,038	23,288,767
Net assets, end of year	\$ 7,620,043	\$ 16,029,385	\$ 23,649,428

See accompanying notes to financial statements.

John P. McGovern Museum of Health & Medical Science

Statement of Functional Expenses for the year ended December 31, 2021

	<u>MUSEUM PROGRAMS</u>	<u>GIFT SHOP</u>	<u>MANAGEMENT AND GENERAL</u>	<u>ADVERTISING AND PUBLIC RELATIONS</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Payroll and related expenses	\$ 734,619		\$ 319,889	\$ 56,723	\$ 250,999	\$ 1,362,230
Depreciation	612,960					612,960
Contract labor	146,093	\$ 900	8,010		14,935	169,938
Utilities	118,871		16,161		14,721	149,753
Traveling exhibits maintenance and set-up fees	148,531					148,531
Professional fees	37,476		78,237		3,722	119,435
Repairs and maintenance	78,022		7,321		7,321	92,664
Rent	76,299		8,182			84,481
Subscription and dues	42,494	100	11,200	354	11,465	65,613
Insurance	51,247		6,406		6,406	64,059
Advertising	356		531	48,098	800	49,785
Program supplies	36,686		313	824	1,792	39,615
Costs of sales		38,524				38,524
Printing and mailing	6,499	3,445	1,426	548	17,465	29,383
Bank and credit card fees	19,636		5,119		4,572	29,327
Office supplies	3,994	332	1,584	29	7,563	13,502
Travel	1,925		2,783		2,727	7,435
Total expenses	<u>\$ 2,115,708</u>	<u>\$ 43,301</u>	<u>\$ 467,162</u>	<u>\$ 106,576</u>	<u>\$ 344,488</u>	3,077,235
Cost of direct donor benefits						<u>58,678</u>
Total						<u>\$ 3,135,913</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, 2020

	<u>MUSEUM PROGRAMS</u>	<u>GIFT SHOP</u>	<u>MANAGEMENT AND GENERAL</u>	<u>ADVERTISING AND PUBLIC RELATIONS</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Payroll and related expenses	\$ 943,563	\$ 20,048	\$ 248,069	\$ 6,601	\$ 238,629	\$ 1,456,910
Depreciation	597,741		10,000		10,000	617,741
Contract labor	89,589	297	2,138		2,138	94,162
Utilities	94,106		12,973		11,532	118,611
Traveling exhibits maintenance and set-up fees	107,996					107,996
Professional fees	27,900		31,239		5,488	64,627
Repairs and maintenance	83,270	4,262	8,034		8,050	103,616
Rent	62,717		7,840		7,840	78,397
Subscription and dues	46,145	290	17,852	51	6,423	70,761
Insurance	50,077		6,260		6,260	62,597
Advertising	429			43,897	32	44,358
Program supplies	48,902	38		165	2,325	51,430
Costs of sales		14,145				14,145
Printing and mailing	9,350	189	1,395	143	26,347	37,424
Bank and credit card fees	11,150		1,820		6,920	19,890
Office supplies	2,600	1,108	2,143	131	407	6,389
Travel	3,333	130	5,615	60	962	10,100
Total expenses	<u>\$ 2,178,868</u>	<u>\$ 40,507</u>	<u>\$ 355,378</u>	<u>\$ 51,048</u>	<u>\$ 333,353</u>	<u>\$ 2,959,154</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 976,305	\$ 360,661
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	612,960	617,741
Net realized and unrealized gain on investments	(1,060,924)	(1,286,819)
Changes in operating assets and liabilities:		
Inventory and other assets	(3,379)	1,568
Contributions receivable	(142,500)	182,000
Accounts payable and accrued expenses	136,012	(148,156)
Deferred revenue	<u>(11,139)</u>	<u>(27,453)</u>
Net cash provided (used) by operating activities	<u>507,335</u>	<u>(300,458)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(6,648,859)	(7,877,612)
Proceeds from sales or maturities of investments	7,086,062	8,098,519
Net change in money market mutual funds held as investments	(49,679)	117,565
Purchases of property	<u>(141,619)</u>	<u>(23,773)</u>
Net cash provided by investing activities	<u>245,905</u>	<u>314,699</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	753,240	14,241
Cash and cash equivalents, beginning of year	<u>648,880</u>	<u>634,639</u>
Cash and cash equivalents, end of year	<u>\$ 1,402,120</u>	<u>\$ 648,880</u>

See accompanying notes to financial statements.

John P. McGovern Museum of Health & Medical Science

Notes to Financial Statements for the years ended December 31, 2021 and 2020

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, if purchased, or at 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. During 2021, the Museum received \$553,553 in contributions from two donors, which represented 32% of total contributions. During 2020, the Museum received \$250,000 in contributions from two donors, which represented 24% of total contributions.

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 includes elements of both contributions and exchange transactions. Special event revenue 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 \$11,172, \$22,311 and \$33,283 as of December 31, 2021, 2020 and 2019, 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 \$0, \$0 and \$16,481 as of December 31, 2021, 2020 and 2019, respectively. There are no contract assets related to these transactions.

Facility rental and parking fees are 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 – 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>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 1,402,120	\$ 648,880
Accounts receivable	2,230	
Contributions receivable	142,500	
Investments restricted for endowment	<u>16,702,785</u>	<u>16,029,385</u>
Total financial assets	18,249,635	16,678,265
Less financial assets not available for general expenditure:		
Donor-restricted endowment investments not approved for use in the coming year	<u>(15,982,785)</u>	<u>(15,309,385)</u>
Total financial assets available for general expenditure	<u>\$ 2,266,850</u>	<u>\$ 1,368,880</u>

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. The Museum’s goal is to maintain available financial assets, which consist of cash on hand and accounts receivable, to meet 60 days of normal operating expense. The Museum’s policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

The Museum received a \$298,500 Paycheck Protection Program (PPP) loan through the Small Business Administration in January 2021. PPP loan principal and interest were forgivable, in whole or in part, if specified requirements were met and the loan was used to fund qualified payroll and other eligible costs. In November 2021, the Museum was notified that the loan had been forgiven and recognized the amount as grant revenue for the year ended December 31, 2021.

NOTE 3 – INVESTMENTS

Investments consist of the following:

	<u>2021</u>	<u>2020</u>
Equity mutual funds	\$ 7,708,588	\$ 7,070,853
Fixed-income mutual fund	4,898,645	4,400,109
U. S. Government agency securities	1,238,780	1,220,121
Corporate bonds	1,067,572	2,067,518
Mortgage-backed securities	878,794	
U. S. Treasury bonds	674,439	510,287
Private real estate limited partnership investment fund	161,459	217,282
Money market mutual funds	74,508	24,829
U. S. Treasury notes		518,386
Total investments	<u>\$ 16,702,785</u>	<u>\$ 16,029,385</u>

Investments are exposed various risks such as interest rate, market and credit risks. 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.

NOTE 4 – 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, 2021 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	\$ 2,634,365			\$ 2,634,365
Domestic large-cap growth	2,532,540			2,532,540
International large-cap value	1,737,818			1,737,818
Domestic small-cap growth	803,864			803,864
Fixed-income mutual fund	4,898,646			4,898,646
U. S. Government agency securities		\$ 1,238,780		1,238,780
Corporate bonds		1,067,572		1,067,572
Mortgage-backed securities		878,794		878,794
U. S. Treasury bonds		674,439		674,439
Private real estate limited partnership investment fund			\$ 161,459	161,459
Money market mutual funds	74,508			74,508
Total assets measured at fair value	<u>\$ 12,681,741</u>	<u>\$ 3,859,585</u>	<u>\$ 161,459</u>	<u>\$ 16,702,785</u>

Assets measured at fair value at December 31, 2020 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	\$ 1,736,086			\$ 1,736,086
Domestic large-cap growth	1,702,999			1,702,999
International large-cap value	1,729,972			1,729,972
Domestic small-cap growth	1,073,906			1,073,906
Domestic small-cap value	827,891			827,891
Fixed-income mutual fund	4,400,109			4,400,109
U. S. Government agency securities		\$ 1,220,121		1,220,121
Corporate bonds		2,067,517		2,067,517
U. S. Treasury bonds		510,287		510,287
Private real estate limited partnership investment fund			\$ 217,282	217,282
Money market mutual funds	24,829			24,829
U. S. Treasury notes		518,386		518,386
Total assets measured at fair value	<u>\$ 11,495,792</u>	<u>\$ 4,316,311</u>	<u>\$ 217,282</u>	<u>\$ 16,029,385</u>

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

- *Mutual funds* are valued at the reported net asset value.
- *U. S. Government agency securities, corporate bonds, mortgage-backed securities, and U. S. Treasury bonds and notes* 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, 2019	\$ 300,355
Distributions	(65,141)
Net unrealized loss	<u>(17,932)</u>
Balance at December 31, 2020	217,282
Distributions	(48,187)
Net unrealized loss	<u>(7,636)</u>
Balance at December 31, 2021	<u>\$ 161,459</u>

NOTE 5 – PROPERTY

Property consists of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 595,912	\$ 595,912
Buildings and improvements	10,575,779	10,575,779
Exhibits	5,009,294	4,999,434
Furniture and equipment	401,086	401,086
Construction in progress	<u>131,759</u>	<u> </u>
Total property, at cost	16,713,830	16,572,211
Accumulated depreciation	<u>(10,157,092)</u>	<u>(9,544,132)</u>
Property, net	<u>\$ 6,556,738</u>	<u>\$ 7,028,079</u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Endowments subject to spending policy and appropriation:		
McGovern endowment for general operating support	\$ 14,131,821	\$ 13,558,550
General endowment for general operating support	<u>2,570,964</u>	<u>2,470,835</u>
Total net assets with donor restrictions	<u>\$ 16,702,785</u>	<u>\$ 16,029,385</u>

NOTE 7 – 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

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 6% of a three-year rolling average (as of December 31) of 70% of the McGovern portion of the endowment and up to 6% 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>NET INVESTMENT</u>	<u>REQUIRED TO BE</u> <u>MAINTAINED</u> <u>IN PERPETUITY</u>	<u>TOTAL</u>
Endowment net assets, December 31, 2019	\$ 429,579	\$ 14,651,459	\$ 15,081,038
Net investment return	1,381,716	199,060	1,580,776
Distributions	<u>(632,429)</u>	<u> </u>	<u>(632,429)</u>
Endowment net assets, December 31, 2020	<u>1,178,866</u>	<u>14,850,519</u>	<u>16,029,385</u>
Net investment return	1,210,592	120,951	1,331,543
Distributions	<u>(658,143)</u>	<u> </u>	<u>(658,143)</u>
Endowment net assets, December 31, 2021	<u>\$ 1,731,315</u>	<u>\$ 14,971,470</u>	<u>\$ 16,702,785</u>

NOTE 8 – 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. No contributions were made during 2021 and 2020.

NOTE 9 – 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 the organizations. Costs exclusive to an organization are directly billed and are not allocated between the organizations. When one organization incurs expense on behalf of another, it bills the other entity. The Museum paid the Academy approximately \$84,000 and \$78,000 in 2021 and 2020, 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, 2021, the Museum has an outstanding commitment of \$83,583 related to this lease for fiscal year 2022. In addition, for the years ended December 31, 2021 and 2020, the Museum paid approximately \$146,000 and \$102,000, respectively, to the Academy for its share of allocated building operating costs.

The Academy made contributions of approximately \$150,000 to the Museum in both 2021 and 2020.

The Society collected membership dues for the Museum totaling \$22,411 and \$23,739 in 2021 and 2020, respectively.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 27, 2022, which is the date that the financial statements were available for issuance. No events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
