

The Museum of Fine Arts, Houston

Financial Statements as of and for the Years Ended
June 30, 2020 and 2019, and Independent
Auditors' Report

THE MUSEUM OF FINE ARTS, HOUSTON

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Museum of Fine Arts, Houston
Houston, Texas

We have audited the accompanying financial statements of The Museum of Fine Arts, Houston (the "Museum"), which comprise the statements of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider internal control relevant to the Museum's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2020, its functional expenses, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Museum's 2019 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Deloitte & Touche LLP

November 9, 2020

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2020 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2019) (Dollars in thousands)

	2020	2019
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 22,751	\$ 21,923
Temporarily restricted cash and cash equivalents	<u>43,188</u>	<u>68,911</u>
Total cash and cash equivalents	<u>65,939</u>	<u>90,834</u>
RECEIVABLES:		
Pledges—net	55,974	72,398
Grants	250	1,153
Accounts	302	502
Interest/dividends	<u>1,205</u>	<u>1,517</u>
Total receivables	<u>57,731</u>	<u>75,570</u>
INVENTORY	<u>836</u>	<u>705</u>
PREPAID EXPENSES	<u>589</u>	<u>1,017</u>
INVESTMENTS	<u>1,282,322</u>	<u>1,300,210</u>
PROPERTY—Net	<u>417,970</u>	<u>376,439</u>
OTHER ASSETS	<u>1,169</u>	<u>1,256</u>
TOTAL	<u>\$ 1,826,556</u>	<u>\$ 1,846,031</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 34,530	\$ 36,660
Deferred revenue	<u>16,233</u>	<u>16,223</u>
Total liabilities	<u>50,763</u>	<u>52,883</u>
COMMITMENTS (Note 4, 7, 10)		
NET ASSETS:		
Without donor restriction	533,841	533,697
With donor restriction	<u>1,241,952</u>	<u>1,259,451</u>
Total net assets	<u>1,775,793</u>	<u>1,793,148</u>
TOTAL	<u>\$ 1,826,556</u>	<u>\$ 1,846,031</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2019) (Dollars in thousands)

	Without Donor Restriction	With Donor Restriction	2020 Total	2019 Total
OPERATING REVENUES:				
Contributions and grants	\$ 11,176	\$ 2,078	\$ 13,254	\$ 14,970
Investment returns, net, appropriated for current use	38,039	426	38,465	37,920
Membership revenue	4,083	-	4,083	3,412
Admission revenue	2,583	-	2,583	6,366
Tuition revenue	1,972	-	1,972	2,370
Auxiliary revenue	2,371	-	2,371	5,306
Other	2,171	-	2,171	4,298
Net assets released from restriction	3,550	(3,550)	-	-
Total operating support and revenue	<u>65,945</u>	<u>(1,046)</u>	<u>64,899</u>	<u>74,642</u>
OPERATING EXPENSES:				
Program services:				
Curatorial and collections	10,166	-	10,166	9,426
Exhibitions	3,419	-	3,419	4,935
Education and public programs	9,466	-	9,466	9,001
Glassell School	5,010	-	5,010	5,360
Bayou Bend	4,208	-	4,208	4,430
Rienzi	1,195	-	1,195	1,330
Membership activities	1,309	-	1,309	1,432
Buildings and grounds and security	15,165	-	15,165	13,742
Subtotal program services	<u>49,938</u>	<u>-</u>	<u>49,938</u>	<u>49,656</u>
Supporting services:				
Management and general	6,382	-	6,382	8,048
Auxiliary activities	3,634	-	3,634	4,548
Fundraising	5,224	-	5,224	5,256
Subtotal supporting services	<u>15,240</u>	<u>-</u>	<u>15,240</u>	<u>17,852</u>
Total operating expenses before depreciation and amortization	<u>65,178</u>	<u>-</u>	<u>65,178</u>	<u>67,508</u>
OPERATING SURPLUS (DEFICIT) BEFORE DEPRECIATION AND AMORTIZATION	767	(1,046)	(279)	7,134
DEPRECIATION AND AMORTIZATION	<u>10,879</u>	<u>-</u>	<u>10,879</u>	<u>10,917</u>
CHANGES IN NET ASSETS FROM OPERATIONS	(10,112)	(1,046)	(11,158)	(3,783)
NON-OPERATING ACTIVITIES:				
Contributions designated for capital expenditures and long term investment	-	25,465	25,465	43,717
Contributions for the purchase of art	6,888	1,703	8,591	6,718
Investment returns, net, appropriated for art acquisition	15,502	6,348	21,850	21,712
Acquisition of art objects net of proceeds from the sale of art	(35,885)	-	(35,885)	(15,757)
Investment returns, net, in excess of amounts appropriated for current use and art acquisition	(60,794)	34,449	(26,345)	31,591
Net assets released from restriction to fund non-operating activities	84,418	(84,418)	-	-
Other—insurance	127	-	127	2,170
CHANGE IN NET ASSETS	144	(17,499)	(17,355)	86,368
NET ASSETS—Beginning of year	<u>533,697</u>	<u>1,259,451</u>	<u>1,793,148</u>	<u>1,706,780</u>
NET ASSETS—End of year	<u>\$533,841</u>	<u>\$1,241,952</u>	<u>\$1,775,793</u>	<u>\$1,793,148</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2020 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2019) (Dollars in thousands)

Area	Program Services									Supporting Services				Total Expenses before Depreciation for the Year Ended June 30, 2020	Total Expenses before Depreciation for the Year Ended June 30, 2019
	Curatorial and Collections	Exhibitions	Education and Public Programs	Glassell School	Bayou Bend	Rienzi	Membership Activities	Buildings & Grounds/ Security	Total	Management and General	Auxiliary Activities	Fund-Raising	Total		
SALARIES	\$ 5,735	\$ 309	\$4,946	\$2,522	\$2,010	\$ 491	\$ 366	\$ 7,260	\$23,639	\$4,258	\$1,371	\$2,100	\$ 7,729	\$31,368	\$31,513
EMPLOYEE BENEFITS	1,014	58	781	391	182	50	66	1,402	3,944	989	209	361	1,559	5,503	5,240
PAYROLL TAXES	<u>420</u>	<u>22</u>	<u>358</u>	<u>142</u>	<u>77</u>	<u>20</u>	<u>25</u>	<u>657</u>	<u>1,721</u>	<u>222</u>	<u>98</u>	<u>136</u>	<u>456</u>	<u>2,177</u>	<u>2,149</u>
Total	7,169	389	6,085	3,055	2,269	561	457	9,319	29,304	5,469	1,678	2,597	9,744	39,048	38,902
OCCUPANCY	249	34	289	350	374	169	13	3,117	4,595	(181)	129	84	32	4,627	2,756
CONTRACT SERVICES	192	55	364	429	395	177	48	736	2,396	516	326	855	1,697	4,093	4,318
PROFESSIONAL FEES	936	12	487	243	30	1	38	219	1,966	875	126	183	1,184	3,150	2,669
PROGRAMS AND PREVIEWS	101	1,227	96	204	423	49	1	-	2,101	20	2	7	29	2,130	3,340
POSTAGE AND SHIPPING	245	1,513	30	39	16	4	71	-	1,918	57	63	58	178	2,096	2,534
INSURANCE	627	23	-	259	76	18	-	764	1,767	207	2	5	214	1,981	1,645
PROMOTION	3	1	754	28	29	11	534	-	1,360	25	11	331	367	1,727	1,729
SUPPLIES	115	2	100	130	38	14	1	429	829	63	94	193	350	1,179	1,221
TRAVEL	208	78	89	36	18	10	1	11	451	125	20	534	679	1,130	1,605
MISCELLANEOUS	283	69	426	154	129	132	37	104	1,334	(944)	400	259	(285)	1,049	1,908
REPAIRS AND MAINTENANCE	22	13	14	1	294	33	-	444	821	55	33	-	88	909	1,689
PRINTING AND PUBLICATIONS	5	2	502	77	50	16	106	-	758	13	3	65	81	839	914
COST OF GOODS SOLD	-	-	-	-	46	-	-	-	46	-	743	-	743	789	1,725
DUES AND SUBSCRIPTIONS	9	-	64	4	12	-	2	18	109	73	3	52	128	237	284
LIBRARY	-	-	164	-	8	-	-	-	172	-	-	-	-	172	228
INTEREST AND TAXES	<u>2</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>4</u>	<u>11</u>	<u>9</u>	<u>1</u>	<u>1</u>	<u>11</u>	<u>22</u>	<u>41</u>
TOTAL	<u>\$10,166</u>	<u>\$3,419</u>	<u>\$9,466</u>	<u>\$5,010</u>	<u>\$4,208</u>	<u>\$1,195</u>	<u>\$1,309</u>	<u>\$15,165</u>	<u>\$49,938</u>	<u>\$6,382</u>	<u>\$3,634</u>	<u>\$5,224</u>	<u>\$15,240</u>	<u>\$65,178</u>	<u>\$67,508</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2020 AND 2019 (Dollars in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (17,355)	\$ 86,368
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	10,879	10,917
Gains on sale of investments	(90,870)	(81,597)
Net unrealized depreciation on investments	76,194	14,391
Distributions from investing activities	17,718	26,056
Contributions restricted by donors	(29,246)	(46,687)
Change in receivables	17,839	16,689
Change in inventory	(131)	104
Change in prepaid expenses	428	(390)
Change in liabilities	(15,582)	(9,342)
Net cash (used in) provided by operating activities	<u>(30,126)</u>	<u>16,509</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(38,949)	(70,718)
Return of capital on investments	18,887	23,630
Purchases of investments	(133,772)	(123,103)
Proceeds from sale of investments	129,732	101,558
Decrease in other assets	87	33
Net cash used in investing activities	<u>(24,015)</u>	<u>(68,600)</u>
CASH FLOWS FROM FINANCING ACTIVITY—Contributions restricted by donors		
	<u>29,246</u>	<u>46,687</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(24,895)	(5,404)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>90,834</u>	<u>96,238</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 65,939</u>	<u>\$ 90,834</u>
NONCASH ACTIVITIES:		
Property purchases totaling \$13,462 and \$17,981 are included in accounts payable as of June 30, 2020 and 2019, respectively.		

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

(Dollars in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The financial statements of The Museum of Fine Arts, Houston (the “Museum”) have been prepared on the accrual basis of accounting.

During the year ended June 30, 2020, the outbreak of coronavirus (COVID-19) impacted the financial markets, the global and local economies, and the Museum’s operations. The Museum was closed to the public for approximately two months during the spring, and upon reopening, admission was limited to 25% of capacity. From mid-March through fiscal year end, substantially all public programs were canceled, and art school classes were limited to virtual options. As a result, operating revenues were negatively impacted for the fiscal year ended June 30, 2020.

Other museums and institutions have made and continue to make similar alterations to their normal business operations, and in general, the markets continue to experience a significant level of uncertainty at the current time. We may be required to take further actions that alter our business operations as the situation evolves. As a result, the ultimate impact of the COVID-19 pandemic and the effects of the alterations we have made in response to the pandemic on our operations, financial condition, liquidity, and financial results cannot be predicted at this time.

The significant accounting policies followed by the Museum, which is a Texas not-for-profit organization, are described below.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Net Assets—Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, requires, among other things, that the Museum classify its net assets into two categories: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions—Net assets not restricted by donor-imposed stipulations that may be designated for specific purposes by action of the Museum’s board of trustees (the “Board of Trustees”).

Net Assets With Donor Restrictions—Net assets resulting from contributions and other inflows of assets whose use by the Museum is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Museum pursuant to these stipulations, or that are subject to donor-imposed stipulations that they be maintained in perpetuity by the Museum. Generally, the donors of these assets permit the Museum to use all or part of the income earned on these assets.

Measure of Operations—The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities include art exhibitions, classroom and hands-on art education, conservation, curatorial and membership activities, auxiliary functions, facilities management, and security. Nonoperating activities are comprised of the acquisition of works of art, capital asset activity, investment returns in excess of those appropriated for current spending, and other activities considered to be unusual or nonrecurring.

Pledges Receivable—Pledges receivable are presented at the net present value of future cash flows discounted at the five-year Treasury bill rate. An allowance is made for uncollectible pledges based on the Museum's analysis of past collection experience and other judgmental factors.

Inventory—Inventory is valued at the lower of cost (moving weighted-average method) or market.

Investments and Income Allocation—The Museum records investments in accordance with the Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 958-320, *Not-for-Profit Entities—Investments—Debt and Equity Securities*. This statement establishes standards for the recognition of fair value of investments in certain equity and debt securities with gains and losses included in the statement of activities. Purchases and sales of investments are recorded on the trade date.

The Museum records investments at fair value. The estimated fair value of its investments is based on quoted market prices, except for certain investments for which quoted market prices are not available. Investments may be valued using various techniques, which may include value based upon prices supplied by pricing services, external broker quotes, and internal pricing matrices. In addition, U.S. GAAP provides guidance for estimating the fair value of investments in certain entities that calculate Net Asset Value (NAV) per share (or its equivalent). As such, the Museum utilizes net asset value as a practical expedient of fair value and other available information to determine fair value for investments meeting the prescribed requirements.

The income from investments in the endowment accounts held in perpetuity, net of realized investment gains on those investment transactions, and appreciation/depreciation in market value of those investments, is allocated among the operating and accessions' accounts based on their respective weighted-average number of investment units.

The Museum spending rule attempts to achieve two objectives by using a long-term spending rate of 5.0% combined with a smoothing rule that adjusts spending gradually to changes in endowment value. The amount released under the spending rule is based on a weighted average of prior spending adjusted for inflation (80% weight) and an amount determined by applying the target rate to the current endowment market value as of December 31 (20% weight), subject to collar limits of 4.75-5.75%.

Property—Property is recorded at cost or the estimated fair value at the date of the gift. The Museum reports gifts of land, buildings, and equipment as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as donor restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service; if insignificant, gifts of long-lived assets are recognized when received.

Depreciation is computed using primarily the straight-line method over 30 years for buildings and capital improvements and five to 10 years for equipment, furniture, and fixtures.

Deferred Revenue—Deferred revenue represents advance rentals related to the expansion of the Museum and is being recognized using the straight-line method over two separate lease terms through 2064.

Statement of Cash Flows—The statement of cash flows is presented using the indirect method. The Museum considers all highly liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents.

Art Collection—With over 71,000 works of art at June 30, 2020, the Museum's permanent collection of world art spans 6,000 years and six continents. The Museum acquires its art collection through purchases or by gifts. The cost of all art objects purchased, together with the value of art objects obtained by gift (for which the Museum receives a reasonable estimate), is reported as a part of acquisition of art objects net of proceeds from the sale of art. In accordance with policies followed by many art museums, no value has been assigned in the statements of financial position to the Museum's art collection.

Purchases for the art collection were \$22,712 and \$11,303 for the years ended June 30, 2020 and 2019, respectively. The value of art objects obtained by gifts is reported as contributions and collection expense in the statements of activities and totaled \$4,632 and \$4,142 for the years ended June 30, 2020 and 2019, respectively. Deaccessions made during the years 2020 and 2019 had a fair market value of \$1 and \$45, respectively, and were executed in accordance with the Museum's policy and accepted national standards.

Gifts of cash or other property restricted by donors for the purchase of items for the art collection are recognized as donor restricted revenue until acquisitions are made in accordance with the terms of the gifts. Net assets are transferred from net assets with donor restrictions to net assets without donor restrictions upon satisfaction of those donor restrictions.

Revenue Recognition—The Museum records contributions received, including unconditional promises to give, as revenues in the period received at their fair value.

The Museum classifies net assets, expenses, revenues, and gains/losses as either with or without donor restrictions.

Donated Services—Donated services that create or enhance nonfinancial assets or require specialized skills are recognized as revenues and corresponding expenses. Donated services that do not meet the above conditions are not recognized. In the years ended June 30, 2020 and 2019, the Museum received donated legal services valued at \$0 and \$162, respectively.

Allocation of Functional Expenses—Expenses are charged to various programs and supporting services based on the ultimate use of the product or services. Information technology costs and salaries of Buildings & Grounds, Gardens, Security and Housekeeping departments are allocated to other functions based on time and effort incurred.

Federal Income Taxes—The Museum is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal income taxes included in the financial statements.

Contributions and Grants—The Museum records unconditional promises to give as revenue in the period in which the promise is made and distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. When an externally imposed restriction expires or contributions are realized, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Revenues from contributions (non-exchange transactions) may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid. Revenues from conditional non-exchange transactions are recognized when the barrier is satisfied. In addition, the Museum has elected the simultaneous release option for conditional contributions that are also subject to purpose restrictions. Under this option, net assets without donor restrictions will include the donor-restricted contributions for which the purpose restrictions are met in the same reporting period as the revenue is recognized.

Subsequent Events—We have evaluated subsequent events through November 9, 2020, which is the date the financial statements were available for issuance.

New Accounting Pronouncements—In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.”

Subsequent to the issuance of ASU 2014-09, various ASU amendments to the revenue guidance have been issued. These updates address 1) Principal versus Agent Considerations (Reporting Revenue Gross versus Net); 2) Identifying Performance Obligations and Licensing; 3) Rescission of Certain SEC Staff Observer Comments upon Adoption of Topic 606; and 4) Narrow-Scope Improvements and Practical Expedients. ASU 2014-09 and subsequent amendments are referred to herein as the “Revenue Standard”. ASU No. 2020-05 (ASU 2020-05), *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, permits private entities that have not yet issued their financial statements or made financial statements available for issuance as of June 3, 2020 to adopt the Revenue Standard beginning July 1, 2020. Management has not yet determined the impact, if any, that implementation of these ASUs will have on the Museum’s financial statements.

In February 2016, the FASB issued ASU No. 2016-02 (ASU 2016-02), *Leases*, which requires lease obligations to be recognized on the balance sheet. ASU 2020-05 extended the adoption date of ASU 2016-02 by the Museum to fiscal year beginning July 1, 2022. Management has not yet determined the impact, if any, that implementation of ASU 2016-02 will have on the Museum’s financial statements.

In August 2018, the FASB issued ASU No. 2018-08 (ASU 2018-08), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the accounting guidance to assist entities in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange transactions subject to other guidance, as well as determining whether a contribution is conditional. Management adopted ASU 2018-08 beginning July 1, 2019; implementation had no significant impact on the Museum’s financial statements.

In August 2018, the FASB issued ASU No. 2018-13 (ASU 2018-13), *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, to improve the effectiveness of the footnote disclosures. ASU 2018-13 is effective for the Museum for the year beginning July 1, 2020. Management has not yet determined the impact, if any, that implementation of ASU 2018-13 will have on the Museum’s financial statements.

In March 2019, the FASB issued ASU No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*, which specifically addresses the use of proceeds from sales of collections and related disclosures. Under the clarified definition, proceeds from the sale of collection items can be used either to acquire new items or directly care for existing items already in possession. Previous guidance required proceeds to be used only for the acquisition of additional collections. This change aligns the definition of “collections” with that currently used by the American Alliance of Museums. ASU 2019-03 further requires an entity to disclose if collection sale proceeds can in fact be used to acquire new items and/or for the direct care of existing collections; and, if using those proceeds for direct care is allowed, the entity’s definition of “direct care.” ASU 2019-03 is effective for the Museum for the year beginning July 1, 2020. Management has not yet determined the impact, if any, that implementation of ASU 2019-03 will have on the Museum’s financial statements.

In September 2020, the FASB issued ASU No. 2020-07 (ASU 2020-07) *Not-for-Profit Entities (Topic 958)—Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. ASU 2020-07 is effective for the Museum beginning July 1, 2021, with early adoption permitted. Management has not yet determined the impact, if any, that implementation of ASU 2020-07 will have on the Museum’s financial statements.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations. Because of the tentative and preliminary nature of such proposed standards, the Museum has not yet determined the effect, if any, that the implementation of such proposed standards would have on its financial statements.

2. LIQUIDITY

Financial assets available for general expenditure within one year of the balance sheet date of June 30, 2020 and 2019 are as follows:

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 22,751	\$ 21,923
Temporarily restricted cash and cash equivalents	43,188	68,911
Receivables:		
Pledges	55,974	72,398
Grants	250	1,153
Accounts	302	502
Interest	1,205	1,517
Investments	<u>1,282,322</u>	<u>1,300,210</u>
Total financial assets	<u>1,405,992</u>	<u>1,466,614</u>
Less: assets not available for expenditure		
Assets with donor restrictions:		
Temporarily restricted cash and cash equivalents	(43,188)	(68,911)
Pledges receivable (less annual fund receivables)	(55,858)	(72,119)
Interest receivable	(1,205)	(1,517)
Investments	(1,282,322)	(1,300,210)
Approved distributions for next fiscal year	62,117	59,805
Board designated reserve fund	<u>(14,091)</u>	<u>(11,126)</u>
Total assets not available for expenditure	<u>(1,334,547)</u>	<u>(1,394,078)</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 71,445</u>	<u>\$ 72,536</u>

Income from donor restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure, except as approved during the annual budget process. The board designated reserve fund could be made available for operations, if necessary.

3. ENDOWMENT FUNDS AND INTERPRETATION OF RELEVANT LAW

Effective September 1, 2007, the State of Texas adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which governs Texas charitable institutions with respect to the management, investment, and expenditure of donor-restricted endowment funds.

The Board of Trustees has interpreted Texas's adoption of UPMIFA as requiring the Museum to adopt investment and spending policies that preserve the fair value of the original gift as of the date of gift, absent explicit donor stipulations to the contrary. Although the Museum has a long-term fiduciary duty to the donor (and to others) for a fund of perpetual duration, the preservation of the endowment's purchasing power is only one of several factors that are considered in managing and investing these funds. Furthermore, in accordance with UPMIFA, a portion of the endowment's original gift may be appropriated for expenditure in support of the restricted purposes of the endowment if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA.

As a result of this interpretation, the Museum classifies as net assets held in perpetuity (1) the original value of gifts donated to the endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net earnings (realized and unrealized) on the investment of endowment assets are classified as donor restricted until those amounts are appropriated for expenditure by the Museum in a manner consistent with the purpose or time restrictions if any, imposed by the donor. Any investment return classified as donor restricted in perpetuity represents only those amounts required to be retained in perpetuity as a result of explicit donor stipulations.

With regard to endowment losses or appropriations in excess of the fair value of the original gift, the portion of a donor-restricted endowment that is classified as with donor restrictions is reduced by losses on the investments of the fund, including losses related to specific investments that the donor requires the Museum to hold in perpetuity.

In accordance with UPMIFA, the Board of Trustees has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs and operations supported by its own endowment, while also seeking to maintain the long-term purchasing of the endowment assets. Therefore, the Board of Trustees 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 fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Museum
- The investment policies of the Museum

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets—beginning of year	<u>\$ 170,139</u>	<u>\$ 1,146,747</u>	<u>\$ 1,316,886</u>
Investment return:			
Investment income	10,251	11,359	21,610
Net realized gains	30,521	60,349	90,870
Net unrealized losses	<u>(38,226)</u>	<u>(37,968)</u>	<u>(76,194)</u>
Total investment return	<u>2,546</u>	<u>33,740</u>	<u>36,286</u>
Contributions	-	3,311	3,311
Other	52	55	107
Appropriated for expenditures	(3,654)	-	(3,654)
Transfers to other funds	(58,739)	-	(58,739)
Net assets released from restrictions	<u>21,769</u>	<u>(21,769)</u>	<u>-</u>
Endowment net assets—end of year	<u>\$ 132,113</u>	<u>\$ 1,162,084</u>	<u>\$ 1,294,197</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets—beginning of year	<u>\$ 178,016</u>	<u>\$ 1,095,966</u>	<u>\$ 1,273,982</u>
Investment return:			
Investment income	11,991	13,066	25,057
Net realized gains	27,668	53,929	81,597
Net unrealized losses	<u>(7,943)</u>	<u>(6,448)</u>	<u>(14,391)</u>
Total investment return	<u>31,716</u>	<u>60,547</u>	<u>92,263</u>
Contributions	-	11,662	11,662
Other	129	135	264
Appropriated for expenditures	(3,254)	-	(3,254)
Transfers to other funds	(58,031)	-	(58,031)
Net assets released from restrictions	<u>21,563</u>	<u>(21,563)</u>	<u>-</u>
Endowment net assets—end of year	<u>\$ 170,139</u>	<u>\$ 1,146,747</u>	<u>\$ 1,316,886</u>

4. INVESTMENTS

Investments are stated at fair value and, if available, quoted market prices are used to value such investments. The financial statements include alternative investments valued at \$249,567 (14% of 2020 net assets) and \$274,542 (15% of 2019 net assets) as of June 30, 2020 and 2019, respectively, whose fair values have been estimated by the Museum's management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the

general partners. Unrealized appreciation or depreciation is recognized within the statement of activities currently. Accumulated unrealized appreciation of investments of \$326,661 and \$402,856 as of June 30, 2020 and 2019, respectively, includes both unrealized gains and losses.

The Museum has made capital commitments of \$774,632 and \$717,201 for purchases of limited partnership interests, of which the total net amount funded was \$575,656 and \$530,245 as of June 30, 2020 and 2019, respectively. Subsequent to June 30, 2020, the Museum funded an additional \$7,505 and made one additional commitment to investment managers in other asset classes.

A summary of investments as of June 30, 2020 and 2019 is as follows:

	2020		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
At fair value:			
Equity and equity mutual funds	\$ 426,659	\$ 785,663	\$ 359,004
U.S. treasuries, bonds and bond mutual funds	69,961	78,691	8,730
Alternative investments	291,781	249,567	(42,214)
Real estate and REITS	15,471	16,612	1,141
Money market mutual funds	<u>151,789</u>	<u>151,789</u>	<u>-</u>
Total investments	<u>\$ 955,661</u>	<u>\$ 1,282,322</u>	<u>\$ 326,661</u>
	2019		
	Cost	Fair Value	Unrealized Appreciation
At fair value:			
Equity and equity mutual funds	\$ 449,227	\$ 831,660	\$ 382,433
U.S. treasuries, bonds and bond mutual funds	70,005	75,402	5,397
Alternative investments	265,333	274,542	9,209
Real estate and REITS	15,295	21,112	5,817
Money market mutual funds	<u>97,494</u>	<u>97,494</u>	<u>-</u>
Total investments	<u>\$ 897,354</u>	<u>\$ 1,300,210</u>	<u>\$ 402,856</u>

Investment income earned by the Museum and its allocation among net asset classifications for the years ended June 30, 2020 and 2019 are as follows:

	2020	2019
Investment income	\$ 22,547	\$ 26,776
Direct investment expense	(3,253)	(2,759)
Net realized gains on investments reported at fair value	90,870	81,597
Net unrealized losses on investments reported at fair value	<u>(76,194)</u>	<u>(14,391)</u>
 Total investment income	 <u>\$ 33,970</u>	 <u>\$ 91,223</u>
 Net asset classification of investment income:		
Without donor restriction	\$ (7,253)	\$ 9,941
With donor restriction	<u>41,223</u>	<u>81,282</u>
 Total investment income	 <u>\$ 33,970</u>	 <u>\$ 91,223</u>

Fair Value Measurement—The Museum utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Museum has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment. As of June 30, 2020 and 2019, the Museum valued, using Level 1 inputs, \$1,015,427 and \$1,008,227, respectively, of investments, which included equity securities traded on active exchanges.

Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. As of June 30, 2020 and 2019, the Museum had no investments valued using Level 2 inputs.

Level 3—Valuations based on inputs that are unobservable and not corroborated by market data. As of June 30, 2020 and 2019, the Museum had no investments valued using level 3 inputs.

Alternative investments and certain mutual funds that do not have readily determinable fair value are measured at fair value using NAV per share as a practical expedient and therefore have not been categorized as investments within the fair value hierarchy.

The financial instruments carried in the statement of financial position by caption and by level within the valuation hierarchy as of June 30, 2020 and 2019 were as follows:

2020				
Assets at Fair Value				
	Level 1	Total Investments Measured at Fair Value	Investments Measured at NAV	Total
Equity and equity mutual funds	\$ 785,663	\$ 785,663	\$ -	\$ 785,663
U.S. treasuries, bonds, and bond mutual funds	61,363	61,363	17,328	78,691
Alternative investments	-	-	249,567	249,567
Real estate and REITS	16,613	16,613	-	16,613
Money market mutual funds	<u>151,788</u>	<u>151,788</u>	<u>-</u>	<u>151,788</u>
Total	<u>\$ 1,015,427</u>	<u>\$ 1,015,427</u>	<u>\$ 266,895</u>	<u>\$ 1,282,322</u>
2019				
Assets at Fair Value				
	Level 1	Total Investments Measured at Fair Value	Investments Measured at NAV	Total
Equity and equity mutual funds	\$ 831,660	\$ 831,660	\$ -	\$ 831,660
U.S. treasuries, bonds, and bond mutual funds	57,961	57,961	17,441	75,402
Alternative investments	-	-	274,542	274,542
Real estate and REITS	21,112	21,112	-	21,112
Money market mutual funds	<u>97,494</u>	<u>97,494</u>	<u>-</u>	<u>97,494</u>
Total	<u>\$ 1,008,227</u>	<u>\$ 1,008,227</u>	<u>\$ 291,983</u>	<u>\$ 1,300,210</u>

The following table includes a rollforward for the year ended June 30, 2019, of amounts for financial instruments classified within Level 3; there was no Level 3 investment activity during the year ended June 30, 2020. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement. Net operating income/expenses, net realized gains, and net unrealized gains are included within realized and unrealized investment income (loss)—net within the statement of activities. The Museum records transfers between levels of the fair value hierarchy at the end of the reporting period.

	Level 3 Investments 2019
Balance—beginning of fiscal year	\$ 2,110
Purchases	-
Distributions	-
Net operating loss	-
Net realized losses	(2,110)
Net unrealized gains	-
	<hr/>
Balance—end of fiscal year	<u><u>\$ -</u></u>

A description of the securities measured at Net Asset Value is as follows as of June 30, 2020 and 2019:

		2020			
	Category	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy hedge funds	(a)	\$ 1,367	\$ -	Quarterly–Annually	30–100 days
Private equity funds	(b)	103,730	87,152	N/A	N/A
Venture capital funds	(c)	10,449	420	N/A	N/A
Energy and natural resources funds	(d)	81,312	62,879	N/A	N/A
Distressed debt funds	(e)	5	-	N/A	N/A
Real estate funds	(f)	52,704	48,524	N/A	N/A
U.S. treasuries, bonds, and bond mutual funds		<u>17,328</u>	<u>-</u>	N/A	N/A
Total		<u><u>\$ 266,895</u></u>	<u><u>\$ 198,975</u></u>		

2019				
Category	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy hedge funds	(a) \$ 2,120	\$ -	Quarterly–Annually	30–100 days
Private equity funds	(b) 103,594	66,531	N/A	N/A
Venture capital funds	(c) 12,568	490	N/A	N/A
Energy and natural resources funds	(d) 115,843	75,804	N/A	N/A
Distressed debt funds	(e) 3	-	N/A	N/A
Real estate funds	(f) 40,413	44,131	N/A	N/A
U.S. treasuries, bonds, and bond mutual funds	<u>17,442</u>	<u>-</u>	N/A	N/A
Total	<u>\$ 291,983</u>	<u>\$ 186,956</u>		

- (a) This category includes hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds' composite portfolio for this category includes investments in U.S. common stocks, credit instruments, and arbitrage investments. The lockup period has expired for these investments. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.
- (b) This category invests in private equity transactions such as growth equity financing, leveraged buyouts, acquisitions and/or industry consolidations, recapitalizations, and restructurings. The fund seeks to earn returns substantially above those on publicly traded stocks over a long-term (seven- to 10-year) horizon. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets for the fund and would be liquidated over five to 10 years. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.
- (c) These venture capital funds invest in early-stage, high-growth private companies, principally in the information technology and life sciences/health care fields. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets of the fund and would be liquidated over five to 10 years. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.
- (d) This category invests in exploration and production companies, midstream companies, royalty interests, and other natural resource-focused companies. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets of the fund. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.
- (e) This category invests in financially distressed companies or companies in Chapter 11, concentrating on senior and secured debt instruments and U.S. private subordinated debt securities with significant equity components. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets of the fund. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.
- (f) This category invests in private equity and debt of real estate investments in the office, industrial, multifamily, hotel, and retail segments. Due to the nature of investments in this category, distributions are received through the liquidation of the underlying assets of the fund. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of the Museum's ownership interest in partners' capital.

The allocation of investments held by the Museum to the various endowments, operations, accessions, and plant accounts as of June 30, 2020 is as follows:

	Cost	Fair Value
Operations endowment investment accounts:		
Museum:		
The Caroline Wiess Law Operating Endowment	\$383,683	\$384,717
Brown Foundation Maintenance Endowment	54,862	133,945
Alice Pratt Brown, "Brown Wing" Endowment	12,020	33,195
Alfred C. Glassell, Jr. Endowment Fund for The Museum of Fine Arts, Houston	15,992	29,233
The General and Mrs. Maurice Hirsch Library Endowment	13,413	23,301
Permanent Endowment	6,433	20,368
Jesse H. and Mary Gibbs Jones Exhibition Endowment	4,258	9,467
Cornelia and Meredith Long Operating Endowment	7,254	7,732
Robert A. Welch—Works of Art Restoration Endowment	2,476	5,853
The Wortham Foundation Audrey Jones Beck Building Endowment	4,981	5,312
W. T. and Louise J. Moran Education Director Endowment	4,127	4,463
Gus and Lyndall Wortham Curatorial Chair Endowment	1,778	3,953
Jeanie Kilroy Wilson Endowment for the Curator of American Painting & Sculpture	3,761	3,507
Audrey Jones Beck Capital Campaign Endowment	3,535	3,045
Cullinan Wing Endowment	1,022	3,003
Ting Tsung and Wei Fong Chao Endowment for the Curator of Asian Art	3,324	2,934
The Isabel Brown Wilson Endowment for the Curator of Modern and Contemporary Art	2,809	2,589
The Caroline Wiess Law Education Endowment	1,890	2,499
The Carol Crow Photography Conservator Chair Endowment	1,864	2,132
Audrey Jones Beck European Art Curator Endowment	2,357	2,030
Sara and Bill Morgan Endowment for the Curator of Decorative Arts, Craft, and Design	2,149	2,000
Latin American and Latino Art Curator Endowment	1,830	1,938
Fayez Shalaby Sarofim and Meredith J. Long Endowment Fund for Exhibitions	1,218	1,279
William Randolph Hearst Educational Outreach Endowment	714	1,137
Harry C. Wiess Memorial Endowment	355	1,051
Peter C. Marzio Endowment for Craft	1,167	972
National Endowment for the Humanities—Education Endowment	757	912
Cyvia and Melvyn Wolff Endowment for Learning Through Art	900	773
The Fondren Foundation Education Endowment	627	673
B.M.C. Software, Inc. Education Endowment	615	644
The Wallace Foundation Education Endowment	656	620
John Blodgett Davis Endowment Fund	636	600
The Margaret Alkek Williams Endowment for the Director of the MFAH	411	387
Shell Companies Exhibition Endowment	159	353
Neal Myers and Ken Black Children's Art Fund	252	349
National Endowment for the Arts—Planning and Stabilization	368	341
The Margaret Cooke Skidmore Endowed Exhibition Fund	303	336
Frank and Eleanor Freed Lecture Series Endowment	181	282
Campaign for the MFAH Campus Operating Endowment	280	251
The Melza and Ted Barr Endowment for Conservation	284	247
The Medha and Shashank Karve Endowment Fund	265	240
The Cyvia and Melvyn Wolff Endowment for Exhibitions	260	239
The Virginia and Ira Jackson Lecture on Prints and Drawings Endowment	224	225

(Continued)

	Cost	Fair Value
Cyvia and Melvyn Wolff Endowment for Bus Scholarships	\$ 233	\$ 194
Houston Antiques Dealers Association Endowment	144	165
Alice Pratt Brown Garden Endowment	68	127
Favrot Education Endowment Fund	119	111
CFP Foundation Endowment for Education	110	99
Garden Endowment	32	71
Michael W. Dale Decorative Arts Exhibition Endowment	76	69
The John C. Wynne Memorial Lecture Series for Arts Education	50	47
Neiman Marcus Youth Arts Education Endowment	45	41
Ralph S. O'Connor Statue Maintenance Endowment	38	39
Beth B. Schneider Endowed Summer Internship Fund	26	23
Samuel F. Gorman Endowment Fund for Exhibitions	<u>1</u>	<u>1</u>
Total Museum	<u>547,392</u>	<u>700,114</u>
Bayou Bend Collection and Gardens:		
Bayou Bend Trust Endowment	5,895	14,748
Bayou Bend Endowments	5,348	10,899
David B. Warren Symposium Endowment	327	356
The Carol and Les Ballard Endowed Lecture Series	309	308
Underwood Bayou Bend Annual Gift Endowment	98	186
The Judy and Charles Tate Education Endowment	125	125
Bayou Bend 50th Anniversary Endowment	131	116
O.B. Dyer Endowment at Bayou Bend	60	55
The Twinkle Fund in support of operations for Bayou Bend Collection and Gardens	25	24
The Sparkle Fund in support of education programs for the docents at Bayou Bend Collection and Gardens	<u>6</u>	<u>6</u>
Total Bayou Bend Collection and Gardens	<u>12,324</u>	<u>26,823</u>
Glassell School of Art:		
Alfred C. Glassell, Jr. Endowment Fund	11,248	22,040
Glassell School Endowments	2,902	6,180
Glassell Scholarship Endowments	4,090	4,819
Laura Lee Blanton Endowment for the Core Program at the Glassell School of Art	1,245	1,109
Glassell School Special Endowment	<u>2</u>	<u>2</u>
Total Glassell School of Art	<u>19,487</u>	<u>34,150</u>
Rienzi:		
The Carroll Sterling and Harris Masterson III Endowment	9,002	14,248
The Caroline Wiess Law Endowment	7,223	10,998
Fredricka H. Crain Endowment for Director of Rienzi	2,075	1,987
Rienzi Garden Endowment Fund	785	670
Nancy Pollok Guinee Endowment for Rienzi Operations	<u>109</u>	<u>98</u>
Total Rienzi	<u>19,194</u>	<u>28,001</u>
Total Operations Endowment Investment Accounts	<u>598,397</u>	<u>789,088</u>
Accessions Endowment Investment Accounts:		
Caroline Wiess Law Accessions Endowment	246,283	249,108
Alfred C. Glassell, Jr. Endowment Fund for Accessions	37,768	73,893
Brown Foundation Accessions Endowment	21,176	53,394

(Continued)

	Cost	Fair Value
Alice Pratt Brown Museum Endowment	\$ 17,600	\$ 49,366
Agnes Cullen Arnold Endowment	8,883	27,499
Director's Accessions Endowment	4,711	15,606
Audrey Jones Beck Accessions Endowment	10,915	12,050
Alvin S. Romansky Print Accessions Endowment	1,511	2,834
Long American Art Endowment	436	1,246
Lora Jean Kilroy Accessions Endowment	1,197	1,108
Shahla and Hushang Ansary Endowment	1,179	1,008
S. I. and Susie Morris Photography Endowment	499	978
The Cyvia and Melvyn Wolff Endowment for American Art	1,044	955
W. H. Keenan Family Endowment Fund	481	496
Rienzi Collections Endowment Fund	491	443
The Marjorie G. and Evan C. Horning Print Fund	173	401
The Myron B. and Linnet F. Deily Endowment for Latin American Art	402	378
Jack R. McGregor Endowment Fund for Glass	327	327
Alice C. Simkins Drawing Endowment Fund	218	225
The Ann Gordon Trammell American Art Endowment Fund	217	218
Mundy Photography Department Endowment	206	193
The Pamela and David Ott American Art Endowment	180	174
Marian and Speros Martel Early Americana Accessions Endowment Fund Honoring William S. Kilroy	181	173
Bayou Bend Docent Organization Endowment Fund	154	152
Elizabeth S. and Marjorie G. Horning Asian Art Accessions Endowment Fund	131	150
Michael K. Brown Metals Endowment Fund	147	147
The Stuart Endowment Fund	165	145
Houston Junior Woman's Club Charitable Fund—An Endowment Fund for Bayou Bend Accessions	151	140
The Ira and Virginia Jackson Endowment Fund	145	137
The Gloria Garic Anderson Endowment Fund For Accessions for Bayou Bend	131	135
Decorative Arts Accessions Endowment Fund	82	94
The Anne Tucker and Clint Willour Young Photographers Endowment	106	94
The Carol Jean and Michael Moehlman Bayou Bend Accessions Endowment Fund	64	66
The Alice C. Simkins Endowment for Southern Art for Bayou Bend	64	60
Lynn and Marcel Mason Photography Endowment Fund	61	56
The Toni and Ralph Wallingford Accessions Endowment for Bayou Bend	61	53
Theta Charity Antiques Show Endowment	52	53
Marjorie & Evan Horning Endowment for Decorative Arts	46	51
Duncan W. Corbett Endowment for Southwestern American Art	33	31
Anne Wilkes Tucker Endowment	25	27
Linda and Ronny Finger Endowment Fund	19	22
Richard J. Meisinger, Jr. Accession Endowment in honor of Anne Wilkes Tucker	21	20
Samuel F. Gorman Endowment Fund for Accessions	<u>1</u>	<u>1</u>
Total Accessions Endowment Investment Accounts	<u>357,737</u>	<u>493,707</u>
Total investments within operations, accessions, and plant accounts	<u>(473)</u>	<u>(473)</u>
Total investments	<u>\$955,661</u>	<u>\$1,282,322</u>

(Concluded)

An endowment is considered to be underwater if the fair value of the endowment fund is less than the original endowment gift amount. The total amount of underwater endowments is immaterial to the financial statements as of June 30, 2020 and 2019.

5. PLEDGES RECEIVABLE

As of June 30, 2020 and 2019, the Museum had unconditional pledges receivable of \$59,347 and \$76,842, respectively. Pledges receivable—net represents the present value of future cash flows, discounted at the average five-year Treasury bill rate (0.34% and 1.83% as of June 30, 2020 and 2019, respectively), and are as follows:

	2020	2019
Due within one year	\$ 23,588	\$ 28,452
Due within two to five years	33,709	34,210
Due after five years	<u>2,050</u>	<u>14,180</u>
 Total	 59,347	 76,842
Less present value discount	(2,154)	(3,225)
Less allowance for uncollectible pledges	<u>(1,219)</u>	<u>(1,219)</u>
 Pledges receivable—net	 <u>\$ 55,974</u>	 <u>\$ 72,398</u>

6. PROPERTY

Property as of June 30, 2020 and 2019 is as follows:

	2020	2019
Land	\$ 27,877	\$ 27,877
Construction in progress	196,619	145,683
Buildings and capital improvements	301,194	300,325
Equipment, furniture, and fixtures	<u>24,903</u>	<u>24,297</u>
 Total	 550,593	 498,182
Less accumulated depreciation	<u>(132,623)</u>	<u>(121,743)</u>
 Total	 <u>\$ 417,970</u>	 <u>\$ 376,439</u>

7. LINE OF CREDIT

During the year ended June 30, 2019, the Museum entered into a \$50 million line of credit agreement with a bank to be used for anticipated cash flow needs of the campus construction project. The agreement expires March 5, 2023. As of June 30, 2020 and 2019, there was \$0 outstanding on this line. Interest on outstanding amounts accrues at LIBOR plus 0.35%; no interest was accrued or paid during the years ended June 30, 2020 and 2019.

8. PENSION PLAN

The Museum has a money-purchase defined contribution pension plan (the “Plan”) covering substantially all of its regular full- and part-time employees. The Plan provides for employee contributions of up to 100% of compensation, up to the maximum dollar limit, which is set by the Internal Revenue Service, and employer contributions of up to 5% of the employee’s compensation. Museum contributions are fully vested immediately upon the employee’s participation. The Museum’s policy is to currently fund accrued pension cost. The total expense for the employer contributions to the Plan for the years ended June 30, 2020 and 2019, was \$1,073 and \$963, respectively, which is included as part of employee benefits expense. The Museum maintains a deferred compensation agreement with the Director of the Museum. The deferral term of the agreement is through January 2027, with ten 12-month deferral periods accruing on a straight-line basis on each anniversary of the agreement. No deferred compensation was paid during the years ended June 30, 2020 and 2019. The deferred compensation liability as of June 30, 2020 and 2019 totaled \$481 and \$334, respectively.

9. RELATED-PARTY TRANSACTIONS

The Museum bylaws incorporate a conflict of interest policy. The purpose of this policy is to protect the Museum’s interest when it is contemplating a transaction or arrangement that might benefit the private interest of a member of its Board of Trustees, officer, director, or associate director of the Museum or a voting member of a committee with board-delegated powers. A person who has a financial interest may have a conflict of interest only if the Board of Trustees or appropriate committee decides that a conflict of interest exists. All members of the board, professional staff, and committee consultants complete a conflict of interest document when joining the institution and/or annually and/or when changes occur.

The outstanding balances of pledges receivable from members of the Museum’s Board of Trustees total \$31,401 and \$33,378 as of June 30, 2020 and 2019, respectively. Contribution revenue from members of the Museum’s Board of Trustees total \$2,757 and \$14,508 for the years ended June 30, 2020 and 2019, respectively.

10. CAPITAL AND OPERATING LEASE COMMITMENTS

The Museum financed the purchase of certain equipment through capital lease obligations. No payments were outstanding as of June 30, 2020. The principal amount outstanding was \$343 for the year ended June 30, 2019 and is included in “accounts payable and accrued liabilities” in the accompanying statements of financial position. The equipment was placed in service during the year ended June 30, 2014, and has an estimated useful life of 3 to 5 years. Net book value of such equipment is \$0 as of June 30, 2020 and 2019 as the cost and accumulated amortization of such equipment totaled \$4,382 and \$4,382, respectively, as of June 30, 2020 and 2019. These amounts are included in “property” in the accompanying statements of financial position.

The Museum has various noncancelable operating lease commitments as of June 30, 2020 payable as follows:

Years Ending June 30

2021	\$ 32
2022	32
2023	16
2024	16
2025	16
Thereafter	<u>4</u>
Total lease commitments	<u>\$ 116</u>

Rental expense under these leases for the years ended June 30, 2020 and 2019 was \$41 and \$132, respectively.

11. NET ASSETS

Net assets with donor restrictions as of June 30, 2020 and 2019 were restricted for the following uses:

	2020		
	Restricted for Time and Purpose	Restricted In Perpetuity	Total
Operations and operations endowment	\$ 227,430	\$ 456,648	\$ 684,078
Accessions and accessions endowment	245,570	270,795	516,365
Plant	<u>41,509</u>	<u>-</u>	<u>41,509</u>
Total	<u>\$ 514,509</u>	<u>\$ 727,443</u>	<u>\$ 1,241,952</u>
	2019		
	Restricted for Time and Purpose	Restricted In Perpetuity	Total
Operations and operations endowment	\$ 210,003	\$ 453,689	\$ 663,692
Accessions and accessions endowment	255,924	270,443	526,367
Plant	<u>69,392</u>	<u>-</u>	<u>69,392</u>
Total	<u>\$ 535,319</u>	<u>\$ 724,132</u>	<u>\$ 1,259,451</u>

Included in operations and accession endowments are contributions and other inflows of assets that are maintained in donor accounts, which are restricted by donor-imposed stipulations to be used, or income from such assets to be used, for various operating and art accession activities of the Museum, including activities of Bayou Bend Collection and Gardens, Glassell School of Art, and Rienzi. Included in plant accounts are pledges and contributions received that are temporarily restricted to be used by the Museum for various capital activities.

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