

The Museum of Fine Arts, Houston

Financial Statements as of and for the Year Ended
June 30, 2023 (with Comparative Totals for the
Year Ended June 30, 2022) and Independent
Auditor's Report

THE MUSEUM OF FINE ARTS, HOUSTON

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of The Museum of Fine Arts, Houston (the "Museum"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Museum as of June 30, 2023, and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Museum and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 the Museum's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 GAAS 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 GAAS, 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 the Museum'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 the Museum'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.

Report on Summarized Comparative Information

We have previously audited the Museum's 2022 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 14, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Deloitte & Touche LLP

November 13, 2023

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2023 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2022) (Dollars in thousands)

	2023	2022
ASSETS		
CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 31,581	\$ 45,949
Restricted cash and cash equivalents	<u>32,492</u>	<u>25,425</u>
Total cash and cash equivalents	<u>64,073</u>	<u>71,374</u>
RECEIVABLES:		
Pledges—net	14,655	26,404
Grants	37	56
Accounts	953	543
Interest/dividends	<u>1,428</u>	<u>1,130</u>
Total receivables	<u>17,073</u>	<u>28,133</u>
INVENTORY	<u>787</u>	<u>817</u>
PREPAID EXPENSES	<u>922</u>	<u>930</u>
INVESTMENTS	<u>1,678,681</u>	<u>1,553,639</u>
PROPERTY—Net	<u>414,874</u>	<u>428,681</u>
OTHER ASSETS	<u>1,008</u>	<u>1,061</u>
TOTAL ASSETS	<u>\$ 2,177,418</u>	<u>\$ 2,084,635</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 25,096	\$ 31,890
Deferred revenue	15,493	15,589
Long term debt—net	<u>99,184</u>	<u>99,155</u>
Total liabilities	<u>139,773</u>	<u>146,634</u>
COMMITMENTS AND CONTINGENCIES (Note 4, 7, 10)		
NET ASSETS:		
Without donor restriction	620,807	598,748
With donor restriction	<u>1,416,838</u>	<u>1,339,253</u>
Total net assets	<u>2,037,645</u>	<u>1,938,001</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,177,418</u>	<u>\$ 2,084,635</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2023 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2022) (Dollars in thousands)

	Without Donor Restriction	With Donor Restriction	2023 Total	2022 Total
OPERATING REVENUES:				
Contributions and grants	\$ 13,769	\$ 3,299	\$ 17,068	\$ 20,584
Investment returns—net, appropriated for current use	50,055	3,979	54,034	43,154
Membership revenue	3,096	-	3,096	3,309
Admission revenue	3,752	-	3,752	3,692
Tuition revenue	2,526	-	2,526	1,965
Auxiliary revenue	3,034	-	3,034	3,123
Other	3,213	-	3,213	1,986
Net assets released from restriction	3,914	(3,914)	-	-
Total operating support and revenue	83,359	3,364	86,723	77,813
OPERATING EXPENSES:				
Program services:				
Curatorial and collections	9,217	-	9,217	8,781
Exhibitions	4,053	-	4,053	6,672
Education and public programs	10,571	-	10,571	9,750
Glassell School	5,783	-	5,783	4,799
Bayou Bend	5,118	-	5,118	3,924
Rienzi	1,507	-	1,507	1,548
Membership activities	1,580	-	1,580	1,276
Buildings and grounds and security	18,822	-	18,822	16,355
Subtotal program services	56,651	-	56,651	53,105
Supporting services:				
Management and general	8,659	-	8,659	8,258
Auxiliary activities	3,402	-	3,402	3,245
Fundraising	5,188	-	5,188	4,232
Subtotal supporting services	17,249	-	17,249	15,735
Total operating expenses before depreciation, amortization and interest expense	73,900	-	73,900	68,840
OPERATING SURPLUS BEFORE DEPRECIATION, AMORTIZATION AND INTEREST EXPENSE	9,459	3,364	12,823	8,973
DEPRECIATION AND AMORTIZATION	20,417	-	20,417	20,507
INTEREST EXPENSE	2,882	-	2,882	941
CHANGES IN NET ASSETS FROM OPERATIONS	(13,840)	3,364	(10,476)	(12,475)
NON-OPERATING ACTIVITIES:				
Contributions designated for capital expenditures and long term investment	1,563	4,319	5,882	3,828
Contributions for the purchase of art	7,094	4,091	11,185	13,620
Investment returns—net, appropriated for art acquisition	5,337	20,641	25,978	15,120
Acquisition of art objects net of proceeds from the sale of art	(25,029)	-	(25,029)	(33,654)
Investment returns—net, in excess of amounts appropriated for current use and art acquisition	2,803	89,301	92,104	(149,095)
Net assets released from restriction to fund non-operating activities	44,131	(44,131)	-	-
Other—insurance	-	-	-	145
CHANGE IN NET ASSETS	22,059	77,585	99,644	(162,511)
NET ASSETS—Beginning of year	598,748	1,339,253	1,938,001	2,100,512
NET ASSETS—End of year	\$620,807	\$1,416,838	\$2,037,645	\$1,938,001

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2023 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2022) (Dollars in thousands)

Area	Program Services									Supporting Services				Total Expenses before Depreciation and Interest for the Year Ended June 30, 2023	Total Expenses before Depreciation for the Year Ended June 30, 2022
	Curatorial and Collections	Exhibitions	Education and Public Programs	Glassell School	Bayou Bend	Rienzi	Membership Activities	Buildings and Grounds and Security	Total	Management and General	Auxiliary Activities	Fund-Raising	Total		
SALARIES	\$5,326	\$ 398	\$ 5,573	\$2,752	\$2,256	\$ 644	\$ 396	\$ 8,301	\$25,646	\$5,133	\$1,506	\$2,300	\$ 8,939	\$34,585	\$31,575
EMPLOYEE BENEFITS	614	56	594	310	146	42	48	1,021	2,831	938	131	277	1,346	4,177	5,770
PAYROLL TAXES	<u>387</u>	<u>28</u>	<u>407</u>	<u>158</u>	<u>103</u>	<u>28</u>	<u>27</u>	<u>734</u>	<u>1,872</u>	<u>253</u>	<u>110</u>	<u>148</u>	<u>511</u>	<u>2,383</u>	<u>2,174</u>
Total	6,327	482	6,574	3,220	2,505	714	471	10,056	30,349	6,324	1,747	2,725	10,796	41,145	39,519
OCCUPANCY	145	24	231	431	416	129	9	4,659	6,044	172	199	61	432	6,476	5,397
CONTRACT SERVICES	369	96	423	660	700	276	73	1,397	3,994	778	364	995	2,137	6,131	4,660
PROFESSIONAL FEES	640	47	600	397	111	15	149	112	2,071	1,328	22	231	1,581	3,652	2,718
PROGRAMS AND PREVIEWS	86	2,025	145	166	618	125	1	-	3,166	18	9	19	46	3,212	3,471
INSURANCE	626	91	-	249	86	24	-	1,422	2,498	310	3	-	313	2,811	2,988
PROMOTION	6	3	966	34	43	11	601	-	1,664	104	18	221	343	2,007	1,747
POSTAGE AND SHIPPING	551	961	30	9	2	1	70	-	1,624	46	60	33	139	1,763	3,131
SUPPLIES	132	30	125	162	98	23	2	573	1,145	61	83	158	302	1,447	1,202
TRAVEL	228	180	117	100	25	20	3	11	684	237	19	393	649	1,333	551
REPAIRS AND MAINTENANCE	19	19	79	7	226	65	-	421	836	102	18	1	121	957	457
COST OF GOODS SOLD	-	-	-	-	35	-	-	-	35	-	840	-	840	875	835
MISCELLANEOUS	65	94	595	309	197	91	80	159	1,590	(928)	8	239	(681)	909	866
PRINTING AND PUBLICATIONS	11	1	190	33	34	13	119	-	401	11	4	84	99	500	438
LIBRARY	1	-	379	-	9	-	-	-	389	-	-	-	-	389	621
DUES AND SUBSCRIPTIONS	11	-	117	6	13	-	2	12	161	96	8	28	132	293	239
TOTAL	<u>\$9,217</u>	<u>\$4,053</u>	<u>\$10,571</u>	<u>\$5,783</u>	<u>\$5,118</u>	<u>\$1,507</u>	<u>\$1,580</u>	<u>\$18,822</u>	<u>\$56,651</u>	<u>\$8,659</u>	<u>\$3,402</u>	<u>\$5,188</u>	<u>\$17,249</u>	<u>\$73,900</u>	<u>\$68,840</u>

See notes to financial statements.

THE MUSEUM OF FINE ARTS, HOUSTON

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2023 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2022) (Dollars in thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 99,644	\$(162,511)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	20,417	20,507
Amortization of debt issuance costs	29	-
Gains on sale of investments	(67,760)	(81,217)
Net unrealized (appreciation) depreciation on investments	(72,966)	193,499
Distributions from investing activities	48,615	48,595
Contributions restricted by donors	(11,709)	(7,984)
Change in receivables	11,060	8,256
Change in inventory	30	(102)
Change in prepaid expenses	8	(114)
Change in liabilities	<u>(5,586)</u>	<u>(5,152)</u>
Net cash provided by operating activities	<u>21,782</u>	<u>13,777</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(7,914)	(7,130)
Return of capital on investments	35,423	48,656
Purchases of investments	(275,116)	(311,357)
Proceeds from sale of investments	206,762	165,922
Decrease in other assets	<u>53</u>	<u>53</u>
Net cash used in investing activities	<u>(40,792)</u>	<u>(103,856)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted by donors	11,709	7,984
Repayment of line of credit	-	(5,000)
Proceeds from long term debt—net	<u>-</u>	<u>99,155</u>
Net cash provided by financing activities	<u>11,709</u>	<u>102,139</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(7,301)	12,060
CASH AND CASH EQUIVALENTS—Beginning of year	<u>71,374</u>	<u>59,314</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 64,073</u>	<u>\$ 71,374</u>
SUPPLEMENTAL DISCLOSURE—Interest paid	<u>\$ 2,882</u>	<u>\$ 949</u>

NONCASH ACTIVITIES—Property purchases totaling \$8 and \$1,311 are included in accounts payable as of June 30, 2023 and 2022, 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, 2023 AND 2022

(Dollars in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies followed by The Museum of Fine Arts, Houston (the "Museum") is presented below and in other sections of these notes. The Museum was founded in 1900 as The Houston Public School Art League and opened to the public in 1924 as the Museum.

Basis of Presentation—The financial statements of the Museum have been prepared on the accrual basis of accounting.

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—Net—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 Accounting Standards 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 fair 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—Net—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 primarily advance rentals related to the expansion of the Museum; those rentals are 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 75,000 works of art as of June 30, 2023, 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 \$17,453 and \$21,263 for the years ended June 30, 2023 and 2022, respectively. The value of art objects obtained by gifts is reported as contributions and collection expense in the statements of activities and totaled \$5,496 and \$10,620 for the years ended June 30, 2023 and 2022, respectively. Deaccessions are executed in accordance with the Museum’s policy and accepted national standards. There were no deaccessions during the years 2023 and 2022.

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. For the years ended June 30, 2023 and 2022, the Museum received no donated services.

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, 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 13, 2023, which is the date the financial statements were available for issuance. No matters were identified affecting the accompanying financial statements or related disclosures.

New Accounting Pronouncements—In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-02 (ASU 2016-02), *Leases*, which requires lease obligations to be recognized on the statement of financial position. ASU 2020-05 extended the adoption date of ASU 2016-02 by the Museum to fiscal year beginning July 1, 2022. Management adopted ASU 2016-02 and 2020-05 beginning July 1, 2022; implementation had no significant impact 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 statement of financial position date of June 30, 2023 and 2022 are as follows:

	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 31,581	\$ 45,949
Restricted cash and cash equivalents	32,492	25,425
Receivables:		
Pledges	14,655	26,404
Grants	37	56
Accounts	953	543
Interest/dividends	1,428	1,130
Investments	<u>1,678,681</u>	<u>1,553,639</u>
Total financial assets	<u>1,759,827</u>	<u>1,653,146</u>
Less: assets not available for expenditure:		
Assets with donor restrictions:		
Restricted cash and cash equivalents	(32,492)	(25,425)
Pledges receivable (less annual fund receivables)	(14,435)	(26,372)
Interest receivable	(1,428)	(1,130)
Investments	(1,661,071)	(1,553,639)
Approved distributions for next fiscal year	83,435	77,597
Board designated reserve fund held in cash	(1,546)	(12,074)
Board designated reserve fund held in investments	<u>(17,610)</u>	<u>-</u>
Total assets not available for expenditure	<u>(1,645,147)</u>	<u>(1,541,043)</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 114,680</u>	<u>\$ 112,103</u>

Income from donor restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure, except as approved for distribution during the annual budget process. The Museum does not intend to spend from its board designated reserve fund; however, amounts from the board designated reserve fund could be made available 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, 2023 and 2022 are as follows:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets—beginning of year	<u>\$ 177,136</u>	<u>\$ 1,300,928</u>	<u>\$ 1,478,064</u>
Investment return:			
Investment income	16,374	16,360	32,734
Net realized gains	34,120	33,640	67,760
Net unrealized gains	<u>34,970</u>	<u>38,166</u>	<u>73,136</u>
Total investment return	<u>85,464</u>	<u>88,166</u>	<u>173,630</u>
Contributions	-	99	99
Other	119	114	233
Appropriated for expenditures	(7,242)	-	(7,242)
Transfers to other funds	(77,106)	-	(77,106)
Clarification of donor intent	-	12,565	12,565
Net assets released from restrictions	<u>33,691</u>	<u>(33,691)</u>	<u>-</u>
Endowment net assets—end of year	<u>\$ 212,062</u>	<u>\$ 1,368,181</u>	<u>\$ 1,580,243</u>
	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets—beginning of year	<u>\$ 271,370</u>	<u>\$ 1,352,640</u>	<u>\$ 1,624,010</u>
Investment return:			
Investment income	12,243	12,992	25,235
Net realized gains	31,803	49,414	81,217
Net unrealized losses	<u>(92,822)</u>	<u>(100,677)</u>	<u>(193,499)</u>
Total investment return	<u>(48,776)</u>	<u>(38,271)</u>	<u>(87,047)</u>
Contributions	-	1,837	1,837
Other	114	116	230
Appropriated for expenditures	(5,397)	-	(5,397)
Transfers to other funds	(55,569)	-	(55,569)
Net assets released from restrictions	<u>15,394</u>	<u>(15,394)</u>	<u>-</u>
Endowment net assets—end of year	<u>\$ 177,136</u>	<u>\$ 1,300,928</u>	<u>\$ 1,478,064</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 \$342,496 (17% of 2023 net assets) and \$338,245 (17% of 2022 net assets) as of June 30, 2023 and 2022, 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 \$502,380 and \$429,415 as of June 30, 2023 and 2022, respectively, includes both unrealized gains and losses.

The Museum has made capital commitments of \$1,004,421 and \$837,643 for purchases of limited partnership interests, of which the total net amount funded was \$714,979 and \$650,531 as of June 30, 2023 and 2022, respectively. Subsequent to June 30, 2023, the Museum funded an additional \$15,399 and made two additional commitments totaling \$40 million.

A summary of investments as of June 30, 2023 and 2022 is as follows:

	2023		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
At fair value:			
Equity and equity mutual funds	\$ 591,981	\$ 1,090,064	\$ 498,083
U.S. treasuries, bonds and bond mutual funds	160,748	160,415	(333)
Alternative investments	341,236	342,496	1,260
Real estate and REITS	17,102	20,472	3,370
Money market mutual funds	<u>65,234</u>	<u>65,234</u>	<u>-</u>
Total investments	<u>\$ 1,176,301</u>	<u>\$ 1,678,681</u>	<u>\$ 502,380</u>
	2022		
	Cost	Fair Value	Unrealized Appreciation
At fair value:			
Equity and equity mutual funds	\$ 573,958	\$ 957,928	\$ 383,970
U.S. treasuries, bonds and bond mutual funds	53,094	53,252	158
Alternative investments	297,388	338,245	40,857
Real estate and REITS	15,576	20,006	4,430
Money market mutual funds	<u>184,208</u>	<u>184,208</u>	<u>-</u>
Total investments	<u>\$ 1,124,224</u>	<u>\$ 1,553,639</u>	<u>\$ 429,415</u>

Investment income earned by the Museum and its allocation among net asset classifications for the years ended June 30, 2023 and 2022 are as follows:

	2023	2022
Investment income	\$ 35,286	\$ 25,531
Direct investment expense	(3,896)	(4,068)
Net realized gains on investments reported at fair value	67,760	81,217
Net unrealized gains (losses) on investments reported at fair value	<u>72,966</u>	<u>(193,499)</u>
Total investment income (loss)	<u>\$ 172,116</u>	<u>\$ (90,819)</u>
Net asset classification of investment income:		
Without donor restriction	\$ 58,195	\$ (59,443)
With donor restriction	<u>113,921</u>	<u>(31,376)</u>
Total investment income (loss)	<u>\$ 172,116</u>	<u>\$ (90,819)</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, 2023 and 2022, the Museum valued, using Level 1 inputs, \$1,336,185 and \$1,215,263, 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022 were as follows:

2023				
Assets at Fair Value				
	Level 1	Total Investments Measured at Fair Value	Investments Measured at NAV	Total
Equity and equity mutual funds	\$ 1,090,064	\$ 1,090,064	\$ -	\$ 1,090,064
U.S. treasuries, bonds, and bond mutual funds	160,415	160,415	-	160,415
Alternative investments	-	-	342,496	342,496
Real estate and REITS	20,472	20,472	-	20,472
Money market mutual funds	<u>65,234</u>	<u>65,234</u>	<u>-</u>	<u>65,234</u>
Total	<u>\$ 1,336,185</u>	<u>\$ 1,336,185</u>	<u>\$ 342,496</u>	<u>\$ 1,678,681</u>

2022				
Assets at Fair Value				
	Level 1	Total Investments Measured at Fair Value	Investments Measured at NAV	Total
Equity and equity mutual funds	\$ 957,928	\$ 957,928	\$ -	\$ 957,928
U.S. treasuries, bonds, and bond mutual funds	53,121	53,121	131	53,252
Alternative investments	-	-	338,245	338,245
Real estate and REITS	20,006	20,006	-	20,006
Money market mutual funds	<u>184,208</u>	<u>184,208</u>	<u>-</u>	<u>184,208</u>
Total	<u>\$ 1,215,263</u>	<u>\$ 1,215,263</u>	<u>\$ 338,376</u>	<u>\$ 1,553,639</u>

A description of the securities measured at Net Asset Value is as follows as of June 30, 2023 and 2022:

2023					
	Category	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity funds	(b)	\$ 139,793	\$ 142,899	N/A	N/A
Venture capital funds	(c)	5,938	315	N/A	N/A
Energy and natural resources funds	(d)	132,665	86,550	N/A	N/A
Real estate funds	(e)	<u>64,100</u>	<u>59,679</u>	N/A	N/A
Total		<u>\$ 342,496</u>	<u>\$ 289,443</u>		

2022					
	Category	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	Multi-Strategy hedge funds	(a) \$ 84	\$ -	Quarterly–Annually	30–100 days
	Private equity funds	(b) 135,599	114,143	N/A	N/A
	Venture capital funds	(c) 7,610	420	N/A	N/A
	Energy and natural resources funds	(d) 129,388	44,057	N/A	N/A
	Real estate funds	(e) 65,564	28,492	N/A	N/A
	U.S. treasuries, bonds, and bond mutual funds	<u>131</u>	<u>-</u>	N/A	N/A
	Total	<u>\$ 338,376</u>	<u>\$ 187,112</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 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, 2023 is as follows:

	Cost	Fair Value
Operations endowment investment accounts:		
Museum:		
The Caroline Wiess Law Operating Endowment	\$ 402,821	\$ 457,587
Brown Foundation Maintenance Endowment	61,525	159,316
Alfred C. Glassell, Jr. Endowment Fund for The Museum of Fine Arts, Houston	19,704	41,986
Alice Pratt Brown, "Brown Wing" Endowment	13,671	39,482
The General and Mrs. Maurice Hirsch Library Endowment	15,129	28,252
Permanent Endowment	7,448	24,226
Campaign for the MFAH Campus Operating Endowment	13,214	13,479
Jesse H. and Mary Gibbs Jones Exhibition Endowment	4,729	11,260
Cornelia and Meredith Long Operating Endowment	7,639	9,196
Robert A. Welch—Works of Art Restoration Endowment	2,767	6,961
The Wortham Foundation Audrey Jones Beck Building Endowment	5,245	6,318
The Hossein Afshar Endowment for Islamic Department Operations	5,433	5,681
W. T. and Louise J. Moran Education Director Endowment	4,349	5,309
Gus and Lyndall Wortham Curatorial Chair Endowment	1,975	4,702
Jeanie Kilroy Wilson Endowment for the Curator of American Painting & Sculpture	3,935	4,172
The Margaret Alkek Williams Endowment for the Director of the MFAH	4,005	3,874
Audrey Jones Beck Capital Campaign Endowment	3,687	3,622
Cullinan Wing Endowment	1,172	3,572
Ting Tsung and Wei Fong Chao Endowment for the Curator of Asian Art	3,470	3,490
The Isabel Brown Wilson Endowment for the Curator of Modern and Contemporary Art	2,938	3,079
The Caroline Wiess Law Education Endowment	2,015	2,972
The Carol Crow Photography Conservator Chair Endowment	1,970	2,536
Audrey Jones Beck European Art Curator Endowment	2,458	2,415
Sara and Bill Morgan Endowment for the Curator of Decorative Arts, Craft, and Design	2,248	2,379
Latin American and Latino Art Curator Endowment	1,926	2,305
Windgate Foundation Endowment for the Curator of Craft	2,161	1,982
Fayez Shalaby Sarofim and Meredith J. Long Endowment Fund for Exhibitions	1,281	1,522
Windgate Foundation Outreach Programming Endowment	1,621	1,487
William Randolph Hearst Educational Outreach Endowment	770	1,353
Harry C. Wiess Memorial Endowment	407	1,250
Peter C. Marzio Endowment for Craft	1,216	1,156
National Endowment for the Humanities—Education Endowment	802	1,085
Cyvia and Melvyn Wolff Endowment for Learning Through Art	939	919
The Fondren Foundation Education Endowment	661	801
B.M.C. Software, Inc. Education Endowment	647	766
The Wallace Foundation Education Endowment	686	737
John Blodgett Davis Endowment Fund	666	714
Albert and Ethel Herzstein Judaica Art Gallery Endowment Fund	629	599
Shell Companies Exhibition Endowment	177	420
Neal Myers and Ken Black Children's Art Fund	269	415
National Endowment for the Arts—Planning and Stabilization	385	406
The Margaret Cooke Skidmore and Louis Hiram Skidmore, Jr. Endowed Exhibition Fund	321	401
Frank and Eleanor Freed Lecture Series Endowment	195	335
The Melza and Ted Barr Endowment for Conservation	296	294

(Continued)

	Cost	Fair Value
The Medha and Shashank Karve Endowment Fund	\$ 276	\$ 285
The Cyvia and Melvyn Wolff Endowment for Exhibitions	272	284
CFP Foundation Endowment for Education	274	275
The Virginia and Ira Jackson Lecture on Prints and Drawings Endowment	235	267
The Jesse H. Jones II Endowment for African-American Art Initiatives	269	261
Cyvia and Melvyn Wolff Endowment for Bus Scholarships	243	231
Joan and Stanford Alexander Dissertation Award Endowment	213	210
Armando Garza-Sada Sr. Endowment for the Arts	216	198
Houston Antiques Dealers Association Endowment	152	197
Alice Pratt Brown Garden Endowment	75	150
Favrot Education Endowment Fund	125	132
Michael W. Dale Exhibition Endowment for Decorative Arts, Craft and Design	105	105
Garden Endowment	36	85
The John C. Wynne Memorial Lecture Series for Arts Education	57	61
Neiman Marcus Youth Arts Education Endowment	57	59
Peter Lotz Memorial Fund	52	48
The Anne Lamkin Kinder Endowment for Research and Publications in Decorative Arts, Craft and Design	53	48
Ralph S. O'Connor Statue Maintenance Endowment	40	47
Beth B. Schneider Endowed Summer Internship Fund	27	27
Samuel F. Gorman Endowment Fund for Exhibitions	<u>1</u>	<u>1</u>
Total Museum	<u>612,380</u>	<u>867,784</u>
Bayou Bend Collection and Gardens:		
Bayou Bend Trust Endowment	6,628	17,542
Bayou Bend Endowments	5,906	12,979
David B. Warren Symposium Endowment	344	423
The Carol and Les Ballard Endowed Lecture Series	324	366
Underwood Bayou Bend Annual Gift Endowment	108	221
The Judy and Charles Tate Education Endowment	131	149
Bayou Bend 50th Anniversary Endowment	137	138
Barbara Graham Williams Education Endowment	100	101
In Memory of James William Glanville and Nancy Hart Glanville Education Endowment	106	96
O.B. Dyer Endowment at Bayou Bend	63	66
Bayou Bend Bonnie A. Campbell Education Programs Endowment	38	38
The Twinkle Fund in support of operations for Bayou Bend Collection and Gardens	26	28
The Sparkle Fund in support of education programs for the docents at Bayou Bend Collection and Gardens	<u>7</u>	<u>7</u>
Total Bayou Bend Collection and Gardens	<u>13,918</u>	<u>32,154</u>
Glassell School of Art:		
Alfred C. Glassell, Jr. Endowment Fund	14,048	31,088
Glassell School Endowments	3,210	7,351
Glassell Scholarship Endowments	4,330	5,732
Laura Lee Blanton Endowment for the Core Program at the Glassell School of Art	1,300	1,318
Glassell School Special Endowment	<u>2</u>	<u>2</u>
Total Glassell School of Art	<u>22,890</u>	<u>45,491</u>
Rienzi:		
The Carroll Sterling and Harris Masterson III Endowment	9,872	17,099
The Caroline Wiess Law Endowment	7,771	13,082
Fredricka H. Crain Endowment for Director of Rienzi	2,275	2,363
Rienzi Garden Endowment Fund	1,040	1,010
Nancy Pollok Guinee Endowment for Rienzi Operations	<u>275</u>	<u>263</u>
Total Rienzi	<u>21,233</u>	<u>33,817</u>
Total Operations Endowment Investment Accounts	<u>670,421</u>	<u>979,246</u>

(Continued)

	Cost	Fair Value
Accessions Endowment Investment Accounts:		
Caroline Wiess Law Accessions Endowment	\$ 266,689	\$ 296,291
Alfred C. Glassell, Jr. Endowment Fund for Accessions	46,398	103,544
Brown Foundation Accessions Endowment	23,832	63,508
Alice Pratt Brown Museum Endowment	20,055	58,717
Agnes Cullen Arnold Endowment	12,751	32,708
Director's Accessions Endowment	5,486	18,562
Audrey Jones Beck Accessions Endowment	11,514	14,333
Alvin S. Romansky Print Accessions Endowment	1,653	3,371
Lora Jean Kilroy Accessions Endowment	1,459	1,514
Long American Art Endowment	498	1,482
S. I. and Susie Morris Photography Endowment	547	1,163
The Cyvia and Melvyn Wolff Endowment for American Art	1,091	1,136
The Stuart Endowment Fund	1,119	1,090
Windgate Foundation Accessions Endowment for Living Contemporary Craft Artists	1,067	963
The Marjorie G. and Evan C. Horning Print Fund	517	775
W. H. Keenan Family Endowment Fund	506	589
Rienzi Collections Endowment Fund	568	581
The Myron B. and Linnet F. Deily Endowment for Latin American Art	426	450
Jack R. McGregor Endowment Fund for Glass	343	389
Elizabeth S. and Marjorie G. Horning Asian Art Accessions Endowment Fund	354	377
Alice C. Simkins Drawing Endowment Fund	230	268
Marjorie & Evan Horning Endowment for Decorative Arts	267	260
The Ann Gordon Trammell American Art Endowment Fund	228	260
The Pamela and David Ott American Art Endowment	217	234
Mundy Photography Department Endowment	216	230
Marian and Speros Martel Early Americana Accessions Endowment Fund Honoring William S. Kilroy	190	206
Bayou Bend Docent Organization Endowment Fund	185	204
Michael K. Brown Metals Endowment Fund	155	175
Houston Junior Woman's Club Charitable Fund—An Endowment Fund for Bayou Bend Accessions	158	166
The Ira and Virginia Jackson Endowment Fund	152	164
The Gloria Garic Anderson Endowment Fund For Accessions for Bayou Bend	138	160
Theta Charity Antiques Show Accessions Endowment	141	144
The Anne Tucker and Clint Willour Young Photographers Endowment	142	141
Decorative Arts Accessions Endowment Fund	87	112
The Carol Jean and Michael Moehlman Bayou Bend Accessions Endowment Fund	77	89
The Alice C. Simkins Endowment for Southern Art for Bayou Bend	67	71
Lynn and Marcel Mason Photography Endowment Fund	66	68
The Toni and Ralph Wallingford Accessions Endowment for Bayou Bend	63	63
Richard J. Meisinger, Jr. Accession Endowment in honor of Anne Wilkes Tucker	55	54
Duncan W. Corbett Endowment for Southwestern American Art	45	47
Anne Wilkes Tucker Endowment	31	36
Linda and Ronny Finger Endowment Fund	20	26
Samuel F. Gorman Endowment Fund for Accessions	1	1
	<u>399,804</u>	<u>604,722</u>
Total Accessions Endowment Investment Accounts		
	<u>10,499</u>	<u>10,328</u>
Total investments within operations, accessions, and plant accounts		
Board designated funds functioning as endowment—2021 Trustee Fund	<u>95,577</u>	<u>84,385</u>
Total investments	<u>\$1,176,301</u>	<u>\$1,678,681</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, 2023 and 2022.

5. PLEDGES RECEIVABLE

Pledges receivable—net represents the present value of future cash flows, discounted at the average five-year Treasury bill rate (3.95% and 3.19% as of June 30, 2023 and 2022, respectively), and are as follows:

	2023	2022
Due within one year	\$ 6,043	\$ 8,591
Due within two to five years	9,499	18,795
Due after five years	<u>800</u>	<u>1,100</u>
Total	16,342	28,486
Less: present value discount	(468)	(863)
Less: allowance for uncollectible pledges	<u>(1,219)</u>	<u>(1,219)</u>
Pledges receivable—net	<u>\$ 14,655</u>	<u>\$ 26,404</u>

6. PROPERTY—NET

Property—net as of June 30, 2023 and 2022 is as follows:

	2023	2022
Land	\$ 27,877	\$ 27,877
Construction in progress	199	5,940
Buildings and capital improvements	536,145	526,634
Equipment, furniture, and fixtures	<u>35,271</u>	<u>32,431</u>
Total	599,492	592,882
Less: accumulated depreciation	<u>(184,618)</u>	<u>(164,201)</u>
Property—net	<u>\$ 414,874</u>	<u>\$ 428,681</u>

Depreciation and amortization expense for the Museum's properties was \$20.4 million and \$20.5 million for the years ended June 30, 2023 and 2022, respectively.

7. LONG TERM DEBT AND LINE OF CREDIT

Long Term Debt—Net—The Museum issued \$100 million of 2021 Taxable Bonds, Series A on October 5, 2021. The bonds mature in 2051; no principal is due until maturity. Interest at 2.85% is due and payable semi-annually. A portion of the proceeds of the bonds was used to pay down and terminate the existing line of credit; remaining proceeds will be used by the Museum for any lawful purpose.

Long term debt—net as of June 30, 2023 and 2022 is as follows:

	2023	2022
2021 Taxable Bonds, Series A	\$ 100,000	\$ 100,000
Bond underwriters discount	(437)	(453)
Deferred financing costs	<u>(379)</u>	<u>(392)</u>
 Total	 <u>\$ 99,184</u>	 <u>\$ 99,155</u>

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 only draw on the line was made during the year ended June 30, 2021. As of June 30, 2021, \$5 million was outstanding on the line and during the year ended June 30, 2022, the line was paid off and terminated.

Interest on the outstanding line of credit amounts accrued at LIBOR plus 0.35%. Interest of \$8 was paid during the year ended June 30, 2022.

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, 2023 and 2022 was \$1,201 and \$1,119, respectively, which is included as part of employee benefits expense in the Statements of Functional Expenses. 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, 2023 and 2022. The deferred compensation liability as of June 30, 2023 and 2022 totaled \$995 and \$906, respectively. The liability is included in Accounts payable and accrued liabilities in the Statements of Financial Position.

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 of Trustees, 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 \$6,706 and \$14,650 as of June 30, 2023 and 2022, respectively. Contribution revenue from members of the Museum’s Board of Trustees total \$3,833 and \$3,806 for the years ended June 30, 2023 and 2022, respectively.

10. COMMITMENTS & CONTINGENCIES

Capital and Operating Lease Commitments—The Museum analyzes each lease agreement to determine whether it should be classified as an operating or finance lease. In addition, the Museum evaluates service contracts that involve the use of an identified asset (such as property, plant, or equipment) to determine if the contract contains a lease. As of June 30, 2023 and 2022, the Museum has no finance leases. The Museum has elected the short-term lease exemption and materiality expedient and therefore does not recognize a right-of-use asset and related lease liability for lease arrangements with an original term of 12 months or less or total lease payments less than \$250.

The Museum has various noncancelable operating lease commitments as of June 30, 2023 payable as follows:

Years Ending June 30

2024	\$ 32
2025	30
2026	<u>4</u>
Total lease commitments	<u>\$66</u>

Total lease expense under these leases for the years ended June 30, 2023 and 2022 was \$32 and \$32, respectively.

Litigation—The Museum is subject to legal proceedings and claims which can arise in the ordinary course of its business. In the opinion of management, any legal proceedings will not have a material effect on the results of operations, cash flows or the financial position of the Museum.

11. NET ASSETS

Net assets with donor restrictions as of June 30, 2023 and 2022 were restricted for the following uses:

	2023		
	Restricted for Time and Purpose	Restricted in Perpetuity	Total
Operations and operations endowment	\$ 311,340	\$ 475,987	\$ 787,327
Accessions and accessions endowment	360,451	272,861	633,312
Plant	<u>(3,801)</u>	<u>-</u>	<u>(3,801)</u>
Total	<u>\$ 667,990</u>	<u>\$ 748,848</u>	<u>\$ 1,416,838</u>
	2022		
	Restricted for Time and Purpose	Restricted in Perpetuity	Total
Operations and operations endowment	\$ 287,839	\$ 462,951	\$ 750,790
Accessions and accessions endowment	308,992	273,233	582,225
Plant	<u>6,238</u>	<u>-</u>	<u>6,238</u>
Total	<u>\$ 603,069</u>	<u>\$ 736,184</u>	<u>\$ 1,339,253</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 restricted to be used by the Museum for various capital activities.

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