

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

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2020 and 2019

John P. McGovern Museum of Health & Medical Science

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Independent Auditors' Report

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

We have audited the accompanying financial statements of John P. McGovern Museum of Health & Medical Science, which comprise the statements of financial position as of December 31, 2020 and 2019 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

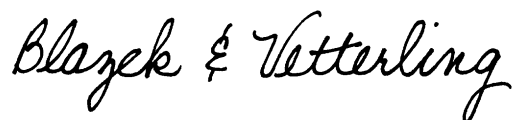
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of John P. McGovern Museum of Health & Medical Science as of December 31, 2020 and 2019 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



August 24, 2021

John P. McGovern Museum of Health & Medical Science

Statements of Financial Position as of December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 648,880	\$ 634,639
Inventory and other assets	33,303	34,871
Contributions receivable		182,000
Investments restricted for endowment (Notes 3 and 4)	16,029,385	15,081,038
Property, net (Note 5)	<u>7,028,079</u>	<u>7,622,047</u>
TOTAL ASSETS	<u>\$ 23,739,647</u>	<u>\$ 23,554,595</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 67,908	\$ 216,064
Deferred revenue	<u>22,311</u>	<u>49,764</u>
Total liabilities	<u>90,219</u>	<u>265,828</u>
Net assets:		
Without donor restrictions	7,620,043	8,024,729
With donor restrictions (Notes 6 and 7)	<u>16,029,385</u>	<u>15,264,038</u>
Total net assets	<u>23,649,428</u>	<u>23,288,767</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,739,647</u>	<u>\$ 23,554,595</u>

See accompanying notes to financial statements.

John P. McGovern Museum of Health & Medical Science

Statement of Activities for the year ended December 31, 2020

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

See accompanying notes to financial statements.

John P. McGovern Museum of Health & Medical Science

Statement of Activities for the year ended December 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 974,101	\$ 183,000	\$ 1,157,101
Special event	367,457		367,457
Direct donor benefit	(83,266)		(83,266)
Admission fees	452,542		452,542
Membership revenue	61,741		61,741
Gift shop sales	110,412		110,412
Education program fees	442,310		442,310
Facility rental and parking fees	201,162		201,162
Net investment return		<u>2,118,199</u>	<u>2,118,199</u>
Total revenue	2,526,459	2,301,199	4,827,658
Net assets released from restrictions:			
Investment earnings distributed from endowments	<u>495,174</u>	<u>(495,174)</u>	
Total	<u>3,021,633</u>	<u>1,806,025</u>	<u>4,827,658</u>
EXPENSES:			
Program services:			
Museum programs	2,889,929		2,889,929
Gift shop	<u>79,945</u>		<u>79,945</u>
Total program services	2,969,874		2,969,874
Management and general	418,528		418,528
Advertising and public relations	101,562		101,562
Fundraising	<u>340,828</u>		<u>340,828</u>
Total expenses	<u>3,830,792</u>		<u>3,830,792</u>
CHANGES IN NET ASSETS	(809,159)	1,806,025	996,866
Net assets, beginning of year	<u>8,833,888</u>	<u>13,458,013</u>	<u>22,291,901</u>
Net assets, end of year	<u>\$ 8,024,729</u>	<u>\$ 15,264,038</u>	<u>\$ 23,288,767</u>

See accompanying notes to financial statements.

John P. McGovern Museum of Health & Medical Science

Statement of Functional Expenses for the year ended December 31, 2020

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

See accompanying notes to financial statements.

John P. McGovern Museum of Health & Medical Science

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

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

See accompanying notes to financial statements.

John P. McGovern Museum of Health & Medical Science

Statements of Cash Flows for the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 360,661	\$ 996,866
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	617,741	631,068
Net realized and unrealized gain on investments	(1,286,819)	(1,720,899)
Changes in operating assets and liabilities:		
Inventory and other assets	1,568	11,788
Contributions receivable	182,000	(182,000)
Accounts payable and accrued expenses	(148,156)	87,313
Deferred revenue	<u>(27,453)</u>	<u>(10,086)</u>
Net cash used by operating activities	<u>(300,458)</u>	<u>(185,950)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(7,877,612)	(5,013,016)
Proceeds from sales or maturities of investments	8,098,519	5,042,080
Net change in money market mutual funds held as investments	117,565	68,810
Purchases of property	<u>(23,773)</u>	<u>(19,344)</u>
Net cash provided by investing activities	<u>314,699</u>	<u>78,530</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	14,241	(107,420)
Cash and cash equivalents, beginning of year	<u>634,639</u>	<u>742,059</u>
Cash and cash equivalents, end of year	<u>\$ 648,880</u>	<u>\$ 634,639</u>

See accompanying notes to financial statements.

John P. McGovern Museum of Health & Medical Science

Notes to Financial Statements for the years ended December 31, 2020 and 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

Membership revenue is derived from membership dues, which are nonrefundable, and provide members with access to various benefits including admission for one year, discounted parking, discounts at the Amazing Body Store, limited access to special exhibits, plus a variety of other benefits. Membership dues are payable at the beginning of the membership period. The Museum recognizes the membership dues evenly over the membership period. The Museum considers the benefits offered as commensurate value of the price of the memberships. Amounts received in advance are recorded as deferred revenue. The amount of payments received in advance are \$22,311, \$33,283 and \$35,996 as of December 31, 2020, 2019 and 2018, respectively. There are no contract assets related to these transactions.

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

Education program fees represent programs offered to groups. Programs offered typically provide participants admission to the Museum's exhibits, as well as other services such as experiments, camps, and a variety of other classes. The programs offered come either standard and are publicized, or they are negotiated depending on the group's requested services. Pricing of the programs vary and depend on the level of services provided. The fees are due at a predetermined date prior to the event and typically require a deposit. Revenue is recognized upon the delivery of services. Refunds are provided if the group cancels prior to the reserved date. Amounts received in advance are recorded as deferred revenue. The amount of payments received in advance are \$0, \$16,481 and \$23,854 as of December 31, 2020, 2019 and 2018, respectively. There are no contract assets related to these transactions.

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

Advertising costs are expensed as incurred.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable

with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy costs are allocated based on square footage.

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

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 648,880	\$ 634,639
Contributions receivable		182,000
Investments restricted for endowment	<u>16,029,385</u>	<u>15,081,038</u>
Total financial assets	16,678,265	15,897,677
Less financial assets not available for general expenditure:		
Donor-restricted endowment investments not approved for use in the coming year	<u>(15,309,385)</u>	<u>(14,549,038)</u>
Total financial assets available for general expenditure	<u>\$ 1,368,880</u>	<u>\$ 1,348,639</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Museum considers all expenditures related to its ongoing activities of providing program services, as well as the conduct of services undertaken to support those activities, to be general expenditures. The Museum’s goal is to maintain available financial assets, which consist of cash on hand and accounts receivable, to meet 60 days of normal operating expense. The Museum’s policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

At December 31, 2020, the Museum has \$1,368,880 of financial assets available to meet cash needs for general expenditures consisting of cash of \$648,880, and the 2020 Board of Trustees approved an endowment appropriation of \$720,000.

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States. As a result of stay-at-home orders and other restrictions, the Museum temporarily closed its facilities resulting in a decrease in program revenue. The Museum implemented pay reductions and furloughed some staff and/or eliminated some positions due to the duration of the pandemic and the resulting shift in operations. The extent of the impact of COVID-19 on the Museum’s future operational and financial performance will depend on the duration and spread of the outbreak and its impact on donors, employees, and vendors, all of which are uncertain and cannot be predicted. While the Museum expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

The Museum received a \$298,500 Paycheck Protection Program (PPP) loan through the Small Business Administration in April 2020. PPP loan principal and interest were forgivable, in whole or in part, if specified requirements were met and the loan was used to fund qualified payroll and other eligible costs. In December 2020, the Museum was notified that the loan had been forgiven and recognized the amount as grant revenue for the year ended December 31, 2020.

NOTE 3 – INVESTMENTS

Investments consist of the following:

	<u>2020</u>	<u>2019</u>
Equity mutual funds	\$ 7,070,853	\$ 6,355,580
Fixed-income mutual fund	4,400,109	4,214,836
Corporate bonds	2,067,518	2,516,672
U. S. Treasury bonds	510,287	642,863
U. S. Government agency securities	1,220,121	489,647
U. S. Treasury notes	518,386	418,691
Private real estate limited partnership investment fund	217,282	300,355
Money market mutual funds	<u>24,829</u>	<u>142,394</u>
Total investments	<u>\$ 16,029,385</u>	<u>\$ 15,081,038</u>

Investments are exposed various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 4 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

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

Assets measured at fair value at December 31, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Domestic large-cap blend	\$ 1,736,086			\$ 1,736,086
International large-cap value	1,729,972			1,729,972
Domestic large-cap growth	1,702,999			1,702,999
Domestic small-cap growth	1,073,906			1,073,906
Domestic small-cap value	827,891			827,891
Fixed-income mutual fund	4,400,109			4,400,109
Corporate bonds		\$ 2,067,517		2,067,517
U. S. Government agency securities		1,220,121		1,220,121
U. S. Treasury notes		518,386		518,386
U. S. Treasury bonds		510,287		510,287
Private real estate limited partnership investment fund			\$ 217,282	217,282
Money market mutual funds	<u>24,829</u>			<u>24,829</u>
Total assets measured at fair value	<u>\$11,495,792</u>	<u>\$ 4,316,311</u>	<u>\$ 217,282</u>	<u>\$16,029,385</u>

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

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

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

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

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

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

Balance at December 31, 2018	\$ 300,599
Distributions	(9,277)
Net unrealized gain	<u>9,033</u>
Balance at December 31, 2019	300,355
Distributions	(65,141)
Net unrealized loss	<u>(17,932)</u>
Balance at December 31, 2020	<u>\$ 217,282</u>

NOTE 5 – PROPERTY

Property consists of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 595,912	\$ 595,912
Buildings and improvements	10,575,779	10,558,452
Exhibits	4,999,434	4,998,309
Furniture and equipment	<u>401,086</u>	<u>395,765</u>
Total property, at cost	16,572,211	16,548,438
Accumulated depreciation	<u>(9,544,132)</u>	<u>(8,926,391)</u>
Property, net	<u>\$ 7,028,079</u>	<u>\$ 7,622,047</u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Endowments subject to spending policy and appropriation:		
McGovern endowment for general operating support	\$ 13,558,550	\$ 12,753,129
General endowment for general operating support	2,470,835	2,327,909
Time-restricted		170,000
Environmental health module		<u>13,000</u>
Total net assets with donor restrictions	<u>\$ 16,029,385</u>	<u>\$ 15,264,038</u>

NOTE 7 – ENDOWMENT FUNDS

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

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

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

Investment Objectives

In order to meet its needs, the investment strategy of the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

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

Changes in endowment net assets are as follows:

	<u>WITH DONOR RESTRICTIONS</u>		
	<u>ACCUMULATED</u>	<u>REQUIRED TO BE</u>	
	<u>NET INVESTMENT</u>	<u>MAINTAINED</u>	
	<u>RETURN</u>	<u>IN PERPETUITY</u>	<u>TOTAL</u>
Endowment net assets, December 31, 2018	\$(1,045,515)	\$14,503,528	\$13,458,013
Net investment return	1,970,268	147,931	2,118,199
Distributions	<u>(495,174)</u>	<u> </u>	<u>(495,174)</u>
Endowment net assets, December 31, 2019	<u>429,579</u>	<u>14,651,459</u>	<u>15,081,038</u>
Net investment return	1,381,716	199,060	1,580,776
Distributions	<u>(632,429)</u>	<u> </u>	<u>(632,429)</u>
Endowment net assets, December 31, 2020	<u>\$ 1,178,866</u>	<u>\$14,850,519</u>	<u>\$16,029,385</u>

Endowment net asset composition is as follows:

	<u>2020</u>	<u>2019</u>
	<u>WITH DONOR</u>	<u>WITH DONOR</u>
	<u>RESTRICTIONS</u>	<u>RESTRICTIONS</u>
Donor-restricted endowment funds:		
Original donor-restricted gift and amounts required to be maintained in perpetuity	\$14,850,519	\$14,651,459
Accumulated net investment return	<u>1,178,866</u>	<u>429,579</u>
Endowment net assets	<u>\$16,029,385</u>	<u>\$15,081,038</u>

NOTE 8 – RETIREMENT PLAN

The Museum maintains a tax deferred annuity plan that qualifies under §403(b) of the Internal Revenue Code. The plan is an arrangement whereby an amount to be determined year-to-year at the employer's discretion is paid to an annuity contract owned by the employee. The Museum contributed approximately \$27,000 to the plan during 2019. No contributions were made during 2020.

NOTE 9 – RELATED PARTY TRANSACTIONS

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

The Museum paid the Academy approximately \$78,000 and \$77,000 in 2020 and 2019, respectively, for rental of space on the second floor of the Museum building owned by the Academy. The rental rate is based upon estimated market rental rates plus operating costs. At December 31, 2020, the Museum has an outstanding commitment of \$83,583 related to this lease for fiscal year 2021. In addition, for the years ended December 31, 2020 and 2019, the Museum paid approximately \$102,000 and \$166,000, respectively, to the Academy for its share of allocated building operating costs, and approximately \$57,000 and \$139,000 as reimbursement of direct and other shared operating costs. The net total amount paid by the Museum for building and other operating costs was approximately \$159,000 and \$305,000 in 2020 and 2019, respectively.

The Academy made contributions of approximately \$150,000 to the Museum in both 2020 and 2019. At December 31, 2020 and 2019, the Museum owed the Society and the Academy a total of \$720 and \$24,965, respectively, for rent and reimbursement of expenses.

The Society collected membership dues for the Museum totaling \$23,739 and \$23,589 in 2020 and 2019, respectively.

NOTE 10 – SUBSEQUENT EVENTS

In January 2021, the Museum received an additional \$298,500 PPP loan. This PPP loan accrues interest at 1% and is payable over 5 years, but may be forgiven, in whole or in part, if funds are used for the intended purposes. Management believes that it has met the conditions for forgiveness and will recognize amounts forgiven, if any, as government grant revenue in the Museum's fiscal year ended December 31, 2021.

Management has evaluated subsequent events through August 24, 2021, which is the date that the financial statements were available for issuance. No events were identified, other than the additional PPP loan, that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
