



McNay Art Museum

Financial Statements
Years Ended June 30, 2018 and 2017

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



McNay Art Museum

Financial Statements
Years Ended June 30, 2018 and 2017

McNay Art Museum

Contents

Independent Auditor's Report	1 - 2
-------------------------------------	-------

Financial Statements

Statements of Financial Position	3
Statement of Activities and Changes in Net Assets	4 - 5
Statement of Functional Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 22



Tel: 210-342-8000
Fax: 210-342-0866
www.bdo.com

9901 IH-10, Suite 500
San Antonio, TX 78230

Independent Auditor's Report

To the Board of Directors of
McNay Art Museum
San Antonio, Texas

We have audited the accompanying statements of financial position of McNay Art Museum (the Museum) as of June 30, 2018 and 2017, and the related statement of activities and changes in net assets and functional expenses for the year ended June 30, 2018 and cash flows for the years ended June 30, 2018 and 2017, 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.

Auditor's 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 the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the Museum as of June 30, 2018 and 2017, and the changes in its net assets and functional expenses for the year ended June 30, 2018 and its cash flows for the years ended June 30, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Financial Information

We have previously audited the Museum's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 2, 2017. In our opinion, the summarized comparative information on the statement of activities and changes in net assets and functional expenses presented herein and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BDO USA, LLP

October 1, 2018

Financial Statements

McNay Art Museum
Statements of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Cash and cash equivalents	\$ 685,090	\$ 2,047,398
Accounts and interest receivable	81,444	91,505
Contributions receivable, current	426,061	396,846
Inventories	115,965	89,677
Prepaid expense and other	385,155	167,043
Short term investments	7,176,336	7,155,873
Long term contribuions receivable	657,330	190,000
Land, buildings, and equipment, net	26,033,060	26,417,689
Long term investments	47,685,952	45,485,699
Total Assets	\$ 83,246,393	\$ 82,041,730
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 489,969	\$ 359,952
Deferred revenue	125,845	521,237
Total Liabilities	615,814	881,189
Net Assets		
Without donor restrictions	44,897,159	43,961,371
With donor restrictions	37,733,420	37,199,170
Total Net Assets	82,630,579	81,160,541
Total Liabilities and Net Assets	\$ 83,246,393	\$ 82,041,730

The accompanying notes are an integral part of these financial statements.

McNay Art Museum

Statement of Activities and Changes in Net Assets

Year ended June 30, 2018

(With Summarized Financial Information for the Year ended June 30, 2017)

	Without Donor Restrictions				With Donor Restrictions	Total	
	Operating	Non-Operating	Land Buildings and Equipment	Total		2018	2017
Revenue, Gains and Other Support							
Contributions	\$ 1,848,783	\$ 116,912	\$ -	\$ 1,965,695	\$ 907,973	\$ 2,873,668	\$ 3,269,572
Memberships	655,477	-	-	655,477	-	655,477	810,727
Special events - net of direct cost totaling \$96,813 in 2018 and \$134,375 in 2017	306,891	-	-	306,891	-	306,891	479,193
Dividends and interest, net	7,722	821,446	-	829,168	241,866	1,071,034	1,067,731
Net realized and unrealized gains on investments	-	4,054,489	-	4,054,489	696,505	4,750,994	3,721,989
Oil royalties, net of taxes of \$12,534 in 2018 and \$7,628 in 2017	96,089	-	-	96,089	-	96,089	87,681
Rental income	313,950	-	-	313,950	-	313,950	298,828
Museum store	268,475	-	-	268,475	-	268,475	319,804
Educational program revenue	14,775	-	-	14,775	-	14,775	12,751
Exhibition income	823,583	-	-	823,583	-	823,583	836,083
Admission fees	199,457	-	-	199,457	-	199,457	230,515
Photography fees	37,576	-	-	37,576	-	37,576	38,520
Miscellaneous	3,063	-	-	3,063	-	3,063	3,518
Transfers/ appropriations	2,104,902	(2,147,228)	-	(42,326)	42,326	-	-
	6,680,743	2,845,619	-	9,526,362	1,888,670	11,415,032	11,176,912
Net assets released from restrictions	973,443	380,977	-	1,354,420	(1,354,420)	-	-
Total Revenue, Gains, and Other Support	\$ 7,654,186	\$ 3,226,596	\$ -	\$ 10,880,782	\$ 534,250	\$ 11,415,032	\$ 11,176,912

The accompanying notes are an integral part of these financial statements.

McNay Art Museum

Statement of Activities and Changes in Net Assets (Continued)

Year ended June 30, 2018

(With Summarized Financial Information for the Year ended June 30, 2017)

	Without Donor Restrictions				With Donor Restrictions	Total	
	Operating	Non- Operating	Land Buildings and Equipment	Total		2018	2017
Expenses							
Program Services:							
Curatorial and conservation	\$ 1,699,209	\$ 27,627	\$ 341,694	\$ 2,068,530	\$ -	\$ 2,068,530	\$ 2,088,532
Exhibitions and presentations	2,827,236	-	703,488	3,530,724	-	3,530,724	3,788,571
Education	1,066,994	5,918	663,289	1,736,201	-	1,736,201	1,777,902
Museum store	327,194	-	20,100	347,294	-	347,294	383,626
Library	249,230	-	20,100	269,330	-	269,330	298,297
Support Services:							
Management and general	321,165	295,176	221,097	837,438	-	837,438	951,006
Fundraising	626,095	15,921	40,199	682,215	-	682,215	817,497
Total Expenses	7,117,123	344,642	2,009,967	9,471,732	-	9,471,732	10,105,431
Change in net assets before changes related to collection items not capitalized and non-operating transfers	537,063	2,881,954	(2,009,967)	1,409,050	534,250	1,943,300	1,071,481
Changes related to collection items not capitalized	-	(594,500)	-	(594,500)	-	(594,500)	(112,420)
Gain on involuntary conversion of assets	-	-	121,238	121,238	-	121,238	229,161
Transfers not affecting operations	(176,806)	-	176,806	-	-	-	-
Change in Net Assets	360,257	2,287,454	(1,711,923)	935,788	534,250	1,470,038	1,188,222
Net assets, beginning of period	423,454	15,612,606	27,925,311	43,961,371	37,199,170	81,160,541	79,972,319
Net Assets, End of Period	\$ 783,711	\$ 17,900,060	\$ 26,213,388	\$ 44,897,159	\$ 37,733,420	\$ 82,630,579	\$ 81,160,541

The accompanying notes are an integral part of these financial statements.

McNay Art Museum

Statement of Functional Expenses

Year ended June 30, 2018
 (With Summarized Financial Information for the Year ended June 30, 2017,

	Program Services						Support Services			Totals	
	Curatorial and Conservation	Exhibitions and Presentations	Education	Museum Store	Library	Total Program Services	Management and General	Fund- raising	Total Support Services	2018	2017
	Salaries and wages	\$ 801,054	\$ 1,360,138	\$ 564,011	\$ 139,983	\$ 155,719	\$ 3,020,905	\$ 177,902	\$ 338,816	\$ 516,718	\$ 3,537,623
Payroll taxes	70,679	120,009	49,764	12,351	13,740	266,543	15,697	29,895	45,592	312,135	301,376
Employee benefits	143,254	243,237	100,865	25,034	27,848	540,238	31,816	60,591	92,407	632,645	738,035
Professional fees	89,154	14,740	11,941	372	372	116,579	144,106	57,149	201,255	317,834	511,078
Lectures	-	-	13,292	-	-	13,292	-	-	-	13,292	20,799
Supplies	16,874	24,966	27,473	4,399	2,779	76,491	16,711	9,190	25,901	102,392	118,346
Communications	4,125	4,029	2,244	332	694	11,424	19,286	3,650	22,936	34,360	36,394
Postage and freight	11,256	514	5,089	93	905	17,857	1,203	9,362	10,565	28,422	32,191
Occupancy	89,609	172,598	162,735	4,931	4,931	434,804	54,247	9,861	64,108	498,912	548,336
Equipment rental and maintenance	249,402	36,050	29,862	3,840	17,157	336,311	87,553	19,249	106,802	443,113	332,507
Printing and publication	10,506	7,619	18,409	306	2,228	39,068	9,115	42,727	51,842	90,910	122,847
Marketing, advertising and publicity	10,745	32,234	5,372	5,372	-	53,723	-	-	-	53,723	99,809
Travel	17,992	14,718	18,686	1,278	239	52,913	9,417	2,100	11,517	64,430	84,071
School busing	-	-	25,539	-	-	25,539	-	-	-	25,539	19,377
Conferences, seminars, and meetings	8,919	5,678	10,306	537	-	25,440	15,215	26,092	41,307	66,747	71,796
Organization dues and subscriptions	940	1,175	1,141	310	1,541	5,107	9,129	3,502	12,631	17,738	22,625
Insurance	152,615	33,278	19,016	9,508	9,508	223,925	5,705	-	5,705	229,630	220,412
Store cost of sales	-	-	-	118,538	-	118,538	-	-	-	118,538	151,832
Maintenance of Collection	45,481	-	-	-	-	45,481	-	-	-	45,481	44,198
Concerts, films, etc.	-	28,171	6,679	-	-	34,850	-	-	-	34,850	37,293
Library books	-	-	-	-	11,569	11,569	-	-	-	11,569	13,334
Exhibitions	-	728,055	-	-	-	728,055	-	-	-	728,055	790,372
Credit card fees	1,042	-	-	-	-	1,042	3,102	29,469	32,571	33,613	39,123
Assessments	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	3,189	27	488	10	-	3,714	16,137	363	16,500	20,214	17,101
	1,726,836	2,827,236	1,072,912	327,194	249,230	6,203,408	616,341	642,016	1,258,357	7,461,765	8,112,485
Depreciation	341,694	703,488	663,289	20,100	20,100	1,748,671	221,097	40,199	261,296	2,009,967	1,992,946
Total Expenses	\$ 2,068,530	\$ 3,530,724	\$ 1,736,201	\$ 347,294	\$ 269,330	\$ 7,952,079	\$ 837,438	\$ 682,215	\$ 1,519,653	\$ 9,471,732	\$ 10,105,431

The accompanying notes are an integral part of these financial statements.

McNay Art Museum
Statements of Cash Flows

<i>Years ended June 30,</i>	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 1,470,038	\$ 1,188,222
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	2,009,967	1,992,946
Net realized and unrealized (gains) losses on investments	(4,750,994)	(3,721,989)
Net (gain) on involuntary conversion of assets	(121,238)	(229,161)
Change in operating activities		
Accounts and interest receivable	10,061	6,730
Contributions receivable	(496,545)	(40,938)
Insurance proceeds receivable	-	1,500,892
Inventories	(26,288)	29,932
Prepaid expenses and other	(218,112)	61,763
Accounts payable and accrued expenses	130,017	(291,639)
Deferred revenue	(395,392)	(210,522)
Net Cash (Used in) Provided by Operating Activities	(2,388,486)	286,236
Cash Flows from Investing Activities		
Purchase of equipment and building improvements	(1,625,338)	(538,252)
Insurance proceeds for fixed asset impairment	121,238	229,161
Proceeds from sale of investments	28,729,131	31,907,788
Purchase of investments	(26,198,853)	(30,833,586)
Net Cash Provided by Investing Activities	1,026,178	765,111
Net (Decrease) Increase in Cash and Cash Equivalents	(1,362,308)	1,051,347
Cash and Cash Equivalents, beginning of period	2,047,398	996,051
Cash and Cash Equivalents, end of period	\$ 685,090	\$ 2,047,398

The accompanying notes are an integral part of these financial statements.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

The McNay Art Museum (the Museum) is a not-for-profit organization with the mission of engaging a diverse community in the discovery and enjoyment of the visual arts. The Museum is located in San Antonio, Texas.

Basis of Presentation

The financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net Assets

The Museum reports information regarding its financial position and activities according to two classes of net assets:

Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. net Assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees and, accordingly, include operating and non-operating assets and land, buildings, and equipment. Non-operating activities consist of earnings on permanently endowed funds that the donor has designated as without donor restrictions to be utilized for operations and without donor restrictions activities not considered "operating" expenditures.

With Donor Restrictions - Net assets whose use by the Museum is subject to donor-imposed restrictions that can be fulfilled by actions of the Museum pursuant to those restrictions, that expire by the passage of time, or net assets subject to donor-imposed restrictions that must be maintained permanently by the Museum. In addition, donor restricted net assets include earnings, both realized and unrealized, on funds whose earnings are restricted for a specific purpose by the donor or for operating or other purposes. See notes 10 and 15.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended, June 30, 2017, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Museum considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents that are part of the long-term investment pool are shown within investments as those resources are not used for daily operating purposes.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable represent amounts due in less than one year. The Museum reviews all outstanding amounts and determines collectability of its receivables based on past experience with customers. Credit losses have been minimal and consistent with management's estimates. The Museum has not established an allowance for doubtful accounts based on its historical collections experience. The Museum recognized no bad debts from accounts receivable as of June 30, 2018 or 2017.

Contributions Receivable

Unconditional promises to give from grantors and donors are measured at fair value and recorded as revenues in the period in which the promise to give is received. Management reviews all outstanding amounts and determines collectability based on past experience with the Museum's donors. As of June 30, 2018 and 2017 no allowance has been established against these receivables as management considers them collectible. The Museum recognized bad debts from contributions receivable of \$3,600 and \$0 as of June 30, 2018 and 2017, respectively.

Inventories

Inventories consisting of items held for resale at the Museum store are carried at the lower of cost (first-in, first-out) or market.

Investments

Investments are reported at fair market value as of the date of the financial statements.

Prepaid Expenses and Other

Prepaid expenses are primarily comprised of advance payments made to vendors for insurance and exhibitions. Other assets of the Museum are recorded at cost when purchased or at the fair market value at the date of gift when assets are contributed. At June 30, 2018 approximately \$100,000 of other assets represents a contribution of rental property. At June 30, 2017 all amounts were comprised of advance payments to vendors.

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost or at the fair market value at the date of gift when assets are contributed. The Museum's capitalization policy requires that all items purchased with a useful life of greater than one year and a cost in excess of \$1,250 be capitalized. Depreciation is recorded in the land, buildings, and equipment fund using the straight-line method. Estimated useful lives used in computing depreciation are as follows:

	Years
Buildings, improvements, and landscaping	25
Furniture, fixtures, and equipment	10
Computer and audio visual equipment	5

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Art Collection

In conformity with industry practice, items purchased or donated for the collection are not recorded as assets in the accompanying statement of financial position. Purchases are reported as decreases in net assets without donor restrictions or as decreases in net assets with donor restrictions if the assets used to purchase the items were restricted by donors. See note 13.

The collections of the Museum represent one of its most valuable assets; therefore the Museum employs full-time employees to manage stewardship of the collections in accordance with its collection and acquisition policy. Each item in the collection is numbered and catalogued in an electronic database. The Museum loans collection items to other museums from time to time for display purposes.

Contributions reflected in the financial statements include only recorded cash receipts and pledges, and do not include gifts of works of art received by the Museum, valued at \$1,325,625 and \$649,005 for the years ended June 30, 2018 and 2017, respectively.

Gifts of cash or other property restricted by donors for the purchase of items for the collection are classified as with donor restrictions. Acquisitions are made in accordance with the terms of the gifts.

Revenue Recognition

The Museum recognizes revenue from contributions, membership, admissions, rentals and exhibitions. Revenue is recognized when earned or given. Amounts contributed for exhibitions in future periods are recorded as deferred revenue.

Special events revenue is recorded at the time of the event net of direct cost of benefits to attendees.

Contributions

The Museum reports gifts of cash and other assets as restricted support if they are received with donor stipulations as to time or use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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.

The Museum reports gifts of land, buildings, and equipment as without donor restrictions 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 restricted support. Absent explicit donor stipulations about how long those 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. The Museum did not receive any gifts of land, buildings, or equipment for the years ending June 30, 2018 and 2017.

Deferred Revenue

Deferred revenue represents revenue attributable to events that have not yet occurred.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), 820-10, defines fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurements, and expands disclosures about fair value measurements. An instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets that the Museum has the ability to access.

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Limited Partnerships are valued using net asset value (NAV) of the partnership assets held.

Federal Income Tax Exemption

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC); therefore, no provision for income taxes has been made in these statements. The Museum follows the provisions of ASC 740-10 *Accounting for Uncertainty in Income Taxes*, which requires recognition and disclosure of uncertain tax positions in the financial statements. The Museum's management believes that it has appropriate support for any tax positions taken and that it has no material uncertain tax positions. Accordingly, it will not recognize any liability for uncertain tax benefits. For the years ended June 30, 2018 and 2017, the Museum did not recognize any interest or penalties in the financial statements.

Tax years 2015-2017 remain open to examination by the taxing jurisdictions which the Museum is subject to, and these periods have not been extended beyond the applicable statute of limitations.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated between the programs and supporting services benefited. The allocation of utilities is calculated using square footage used by the program. The allocation of salaries is calculated either by actual hours worked for special events and rentals or as a percentage of time worked for projects such as exhibitions. All other allocated costs are based on actual figures.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$199,535 and \$249,783 for the years ended June 30, 2018 and 2017, respectively.

Estimates

The preparation of financial statements in conformity with 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements issued but Not Yet Adopted or Currently in Effect

Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date for the Museum until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its financial statements.

Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Museum's fiscal years beginning after December 15, 2019 with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

McNay Art Museum

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (Continued)

Accounting Pronouncements issued and adopted

Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements for Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include; (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Museum's financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management has opted to early adopt this ASU.

Reclassifications

Certain amounts in the prior period have been reclassified to conform to the current period financial statement presentation. The reclassifications have no effect on the previously reported change in net assets.

2. Concentration Risk

Financial instruments which potentially subject the Museum to a concentration risk consist principally of cash.

The Museum maintains multiple bank accounts in San Antonio, Texas. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts, and without limit for non-interest-bearing transaction accounts. The museum holds amounts over the \$250,000 insured limit at various levels during the year.

McNay Art Museum

Notes to Financial Statements

3. Liquidity

The Museum's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	\$	685,090
Accounts receivable		81,444
Contributions receivable		426,061
Investments appropriated for current use		7,176,336
		<hr/>
	\$	8,365,931

The Museum regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Museum has various sources of liquidity at its disposal, including cash and cash equivalents and various receivables. In addition, appropriation from the endowment of approximately \$2 million, will be available in the next year.

The Museum's invested endowment supports general operations, specific program activity, and certain non-operating strategic activity. The Museum applies its spending policy to its invested endowment to determine the amount available for current use. The Museum's investment policy ensures that investment liquidity will satisfy its current endowment based on operating and programmatic needs.

In addition to the financial assets available to meet general expenditures over the next 12 months, the Museum operates with a balanced budget and anticipates earned revenues and annual support contributions sufficient to cover general expenditures not provided by endowment spending rate or other donor restricted sources. The Museum's invested endowment includes board designated funds to support general operations based on its spending policy, and for other non-operating strategic purposes. Although the Museum does not intend to utilize these board designated funds beyond their budgeted usage, these funds could be made available by Board vote if necessary.

4. Contributions Receivable

Contributions receivable at June 30, 2018 and 2017 amounted to \$1,083,391 and \$586,846 respectively.

Pledges receivable are expected to be collected as follows during the years ending June 30:

2019	\$	426,061
2020		50,000
2021		257,330
2022		50,000
2023		50,000
Thereafter		250,000
		<hr/>
Total Contributions Receivable	\$	1,083,391

No discount has been applied to the contributions receivable at June 30, 2018 and 2017 as the amount is immaterial to the financial statements.

McNay Art Museum

Notes to Financial Statements

5. Investments

The carrying value of investments, which is the fair value, is based upon values provided by external investment managers. Fees paid to the external investment managers of \$318,502 and \$283,654 were withdrawn from the account during the year ended June 30, 2018 and 2017 respectively. Therefore, valuation of the investments at year-end reflects value net of fees. Fair values are summarized as follows:

Total investments are composed of the following at June 30, 2018:

	Fair Value
Money market funds	\$ 2,777,236
Corporate debt securities	10,570,258
Equity securities	32,611,860
Limited partnership - publicly traded	4,326,242
Limited partnership - privately held	4,576,692
<hr/>	
Total Investments	\$ 54,862,288

Total investments are composed of the following at June 30, 2017:

	Fair Value
Money market funds	\$ 3,228,456
U.S. Treasury notes	586,172
Corporate debt securities	11,861,346
Equity securities	28,737,176
Limited partnership - publicly traded	4,837,874
Limited partnership - privately held	3,390,548
<hr/>	
Total Investments	\$ 52,641,572

The Museum's investment strategy is to hold the majority of their investments in securities that can be traded or sold at any time in order to meet the cash flow needs of the Museum. Management of the Museum classifies investments as short-term based on the following criteria: 1) Estimated amounts to be appropriated from endowed funds based on the spending policy 2) Amounts to be released from restriction based on annual spending budgets 3) Amount designated by the board to be available for operational cash flow needs. This amount is determined annually.

McNay Art Museum

Notes to Financial Statements

6. Fair Values of Financial Instruments

The Museum uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures. For additional information on how the Museum measures fair value, refer to note 1.

The following tables set forth by level, within the fair value hierarchy, these Museum assets at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,777,236	\$ -	\$ -	\$ 2,777,236
Corporate debt securities	10,570,258	-	-	10,570,258
Equity securities	32,611,860	-	-	32,611,860
Limited partnership publicly traded	4,326,242	-	-	4,326,242
Total Assets at Fair Value	\$ 50,285,596	\$ -	\$ -	\$ 50,285,596

Limited partnerships - measured at NAV	-	-	-	\$ 4,576,692
---	---	---	---	--------------

The following tables set forth by level, within the fair value hierarchy, these Museum assets at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 3,228,457	\$ -	\$ -	\$ 3,228,457
U.S. Treasury notes	586,172	-	-	586,172
Corporate debt securities	11,861,346	-	-	11,861,346
Equity securities	28,737,176	-	-	28,737,176
Limited partnership publicly traded	4,837,873	-	-	4,837,873
Total Assets at Fair Value	\$ 49,251,024	\$ -	\$ -	\$ 49,251,024

Limited partnerships - measured at NAV	-	-	-	\$ 3,390,548
---	---	---	---	--------------

McNay Art Museum

Notes to Financial Statements

7. Land, Buildings, and Equipment

Major classification of land, buildings, and equipment are summarized below:

<i>Years ended June 30,</i>	2018	2017
Land	\$ 585,962	\$ 585,962
Buildings, improvements, and landscaping	50,529,227	48,643,098
Furniture and equipment	2,580,100	2,526,461
Total Land, Buildings and Equipment	53,695,289	51,755,521
Less: Accumulated depreciation	(27,670,229)	(25,660,262)
Net Land, Buildings, and Equipment before Construction in Progress	26,025,060	26,095,259
Construction in progress	8,000	322,430
Net Land, Buildings, Equipment and Construction in Progress	\$ 26,033,060	\$ 26,417,689

Depreciation expense totaled \$2,009,967 and \$1,992,946 for the years ended June 30, 2018 and 2017, respectively. The Museum had no disposals of furniture and equipment during the years ended June 30, 2018 or 2017.

8. Involuntary Conversion

On April 12, 2016, the Museum sustained heavy roof damage from hailstorms, creating an impairment to the value of the assets. Assets were appropriately disposed and a gain was recorded in 2016. Damage was recoverable through insurance and all assets have been restored with insurance proceeds. For fiscal years 2018 and 2017 insurance proceeds were \$121,238 and \$229,161, respectively and are recorded in the statement of activities as a gain on involuntary conversion.

9. Operating Leases

The Museum has several non-cancelable operating leases for equipment that expire at different dates through June 2023. The following are future minimum lease payments under these leases:

<i>Year ending June 30,</i>	Amount
2019	\$ 79,419
2020	48,864
2021	48,864
2022	48,864
2023	48,864
	\$ 274,875

McNay Art Museum
Notes to Financial Statements

10. Net Assets

Net assets with donor restrictions are restricted for the following purposes or periods are as follows:

<i>Years ended June 30,</i>	2018	2017
Perpetual in nature:		
Auditorium and gallery maintenance	\$ 700,000	\$ 700,000
Art acquisitions	737,691	1,737,691
Educational programs, exhibitions and presentations	9,759,340	9,759,340
Curatorial and conservation	1,000,000	1,000,000
Director's chair	1,000,000	1,000,000
Any activities of the museum	19,161,494	19,134,684
Subject to expenditure for specified purpose:		
Art acquisitions/conservation	3,037,323	2,042,454
Educational programs, exhibitions and presentations	1,690,139	1,304,019
Other	647,433	520,982
Net Assets with Donor Restrictions	37,733,420	\$ 37,199,170
Net assets without donor restrictions consist of the following:		
Undesignated	\$ 12,183,345	\$ 9,714,427
Designated for land, buildings, and equipment	26,213,388	27,925,311
Board designated	6,500,426	6,321,633
Total Without Donor Restrictions	\$ 44,897,159	\$ 43,961,371

11. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, or by occurrence of other events specified by donors.

<i>Years ended June 30,</i>	2018	2017
Art acquisitions	\$ 382,000	\$ 112,420
Exhibitions, presentation, and education	723,363	899,602
Other	249,057	136,902
Total Net Assets Released from Restrictions	\$ 1,354,420	\$ 1,148,924

Transfers and appropriations on the statement of activities reflect investment returns appropriated from endowments.

McNay Art Museum

Notes to Financial Statements

12. Contributed Services

A substantial number of volunteers have made significant contributions of their time to develop the Museum, especially its fundraising and educational programs. Approximately 12,000 volunteer hours were contributed during each of the years ended June 30, 2018 and 2017. Accounting principles do not permit recording the value of this type of contributed services in the financial statements.

13. Objects Held for Display

Objects held for display (the Museum collection) consist primarily of a strong collection of 19th and 20th century European and American paintings, prints, sculptures, and one of the leading collections of theatre arts in the country. The Museum collection is essential to its mission. The Museum has established stewardship procedures for the accession (acquisition), deaccession (disposal), loan, and care of the collection.

As noted in note 1, objects held for display are not recorded in the statement of financial position of the Museum. The proceeds received as a result of any deaccessions are used to acquire other works of art for the collection.

14. Retirement Plan

The Museum established a defined contribution 403(b) retirement plan (the Plan) effective April 2003 and makes bi-weekly contributions to the Plan on behalf of eligible employees. The Plan investments are employee-directed. The Museum contributed \$151,120 and \$186,431 to the plan for the fiscal years ended June 30, 2018 and 2017, respectively. Employees working more than 20 hours per week are eligible for a 6% employer contribution beginning on the first anniversary of their hire date, after completion of 1000 hours of service, and attaining the age of 20½ years.

The Museum also sponsors a 457(b) deferred compensation plan, enabling certain employees to enhance their retirement by allowing them to defer compensation and receive benefits at separation of service. The Museum contributed \$0 and \$41,078 to this plan for the years ended June 30, 2018 and 2017, respectively.

15. Endowment Funds

General Information

The Museum maintains various endowment funds established for a variety of purposes. These endowments include both endowment contributions with donor restrictions, and funds designated by the Board of Trustees to function as endowments. The endowment funds with donor restrictions fall under the provisions of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the state of Texas with an effective date of September 1, 2008. This policy defines the Museum's interpretation of the provisions of this law as they relate to the prudent management of its endowment fund.

McNay Art Museum

Notes to Financial Statements

15. Endowment Funds (Continued)

Endowment "Principal" Interpretation

The Museum has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the endowment funds with donor restrictions, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as net assets with donor restrictions the original value of gifts donated to the endowment (the "Principal") in perpetuity. The remaining portion of the endowment fund with donor restrictions that is not classified as held in perpetuity is classified as non-operating or with donor restrictions and held until appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment Investment Objectives

Endowment investments are managed by professional money manager(s) under the direction of the Investment Committee of the Board of Trustees of the Museum. Funds are invested in a manner that seeks to produce results that meet or exceed the performance of generally recognized market indices, while assuming a moderate level of investment risk.

To satisfy this performance objective, 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.

Endowment "Income" Appropriation (Spending Policy)

The Museum's policy is to appropriate for distribution each year a percentage of its endowment fund's average fair value based on a 12-quarter rolling average as of March 31 of the preceding year. For the fiscal year ended June 30, 2018, the distribution percentage was 5%. The percentage will remain at 5% until further action by the Board of Trustees. In establishing this policy, the Museum considered the long-term expected return on its endowment.

Accordingly, over the long term, the Museum expects the spending policy to allow its endowment to grow at an average of 4% annually. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity, or for a specified term, as well as provide additional real growth through new gifts and investment return.

In accordance with UPMIFA, in all its endowment spending activity, the Museum considers the following factors in making a determination to appropriate (spend) or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Museum and the endowment fund with donor restrictions
3. General economic and investment market conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Museum, and
7. The investment policies of the Museum

McNay Art Museum

Notes to Financial Statements

15. Endowment Funds (Continued)

Endowment Composition by Type of Fund as of June 30, 2018

	Without Donor Restrictions*	With Donor Restrictions	Total
Board designated endowment funds	\$ 2,718,937	\$ -	\$ 2,718,937
Donor endowment funds	11,841,288	36,193,566	48,034,854
Total Funds	\$ 14,560,225	\$ 36,193,566	\$ 50,753,791

Changes in Endowment for the Year Ended June 30, 2018

	Without Donor Restrictions*	With Donor Restrictions	Total
Endowment, beginning of period	\$ 12,245,726	\$ 36,451,909	\$ 48,697,635
Investment Return:			
Interest and dividends	742,889	241,866	984,755
Net appreciation (realized and unrealized)	3,675,180	695,862	4,371,042
Total Investment Return	4,418,069	937,728	5,355,797
Contributions	6	200	206
Transfers/appropriations	(2,103,576)	-	(2,103,576)
Release from restriction	-	(1,196,271)	(1,196,271)
Total Funds	\$ 14,560,225	\$ 36,193,566	\$ 50,753,791

Endowment Composition by Type of Fund as of June 30, 2017

	Without Donor Restrictions*	With Donor Restrictions	Total
Board designated endowment funds	\$ 2,725,592	\$ 743,465	\$ 3,469,057
Donor endowment funds	9,520,134	35,708,444	45,228,578
Total Funds	\$ 12,245,726	\$ 36,451,909	\$ 48,697,635

* Represents earnings on endowed funds, with donor restrictions that are designated for operations and board designated endowments.

McNay Art Museum
Notes to Financial Statements

15. Endowment Funds (Continued)

Changes in Endowment for the Year Ended June 30, 2017

	Without Donor Restrictions*	With Donor Restrictions	Total
Endowment, beginning of period	\$ 11,120,242	\$ 35,168,072	\$ 46,288,314
Investment Return:			
Interest and dividends	727,309	273,781	1,001,090
Net appreciation (realized and unrealized)	2,521,320	912,921	3,434,241
Total Investment Return	3,248,629	1,186,702	4,435,331
Contributions	7,667	1,000,100	1,007,767
Transfers/appropriations	(2,130,812)	-	(2,130,812)
Release from restriction	-	(902,965)	(902,965)
Total Funds	\$ 12,245,726	\$ 36,451,909	\$ 48,697,635

* Represents earnings on endowed funds, with donor restrictions that are designated for operations and board designated endowments.

16. Subsequent Events

Management has evaluated events subsequent to June 30, 2018 and through October 1, 2018, which is the date the financial statements were available to be issued.