



McNay Art Museum

Financial Statements
Years Ended June 30, 2022 and 2021

McNay Art Museum

Financial Statements
Years Ended June 30, 2022 and 2021

McNay Art Museum

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Independent Auditor's Report

The Board of Directors
McNay Art Museum
San Antonio, Texas

Opinion

We have audited the financial statements of McNay Art Museum (the Museum), which comprise the statements of financial position and cash flows as of June 30, 2022 and 2021, and the related statement of activities and changes in net assets and statement of functional expenses for the year ended June 30, 2022, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Museum as of June 30, 2022 and 2021, and the changes in its net assets for the year ended June 30, 2022 and its cash flows for the years ended June 30, 2022 and 2021, 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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 3, 2021. In our opinion, the summarized comparative information on the statement of activities and changes in net assets and statement of functional expense presented herein and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern within one year after the date that the financial statements are issued or 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.

BDO USA, LLP

October 14, 2022

Financial Statements

McNay Art Museum
Statements of Financial Position

<i>June 30,</i>	2022	2021
Assets		
Cash and cash equivalents	\$ 6,810,346	\$ 5,406,669
Accounts and interest receivable	439,262	82,987
Contributions receivable, current	184,600	457,907
Prepaid expense and other	306,169	241,507
Short-term investments	7,061,209	7,387,003
Long-term contributions receivable	250,000	317,000
Land, buildings, and equipment, net	24,643,287	26,250,448
Long-term investments	49,129,210	57,968,294
Total Assets	\$ 88,824,083	\$ 98,111,815
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 292,190	\$ 264,609
Deferred revenue	180,255	206,567
Total Liabilities	472,445	471,176
Net Assets		
Without donor restrictions	45,617,214	55,309,055
With donor restrictions	42,734,424	42,331,584
Total Net Assets	88,351,638	97,640,639
Total Liabilities and Net Assets	\$ 88,824,083	\$ 98,111,815

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

McNay Art Museum

Statement of Activities and Changes in Net Assets (with summarized comparative totals for 2021)

Year ended June 30,

	Without Donor Restrictions				Total		
	Operating	Non-Operating	Land, Buildings, and Equipment	Total	With Donor Restrictions	2022	2021
Revenue, Gains, and Other Support							
Contributions	\$ 3,159,185	\$ 756,950	\$ -	\$ 3,916,135	\$ 958,886	\$ 4,875,021	\$ 5,177,246
Memberships	711,623	-	-	711,623	-	711,623	661,494
Special events - net of direct cost totaling \$177,204 in 2022 and \$49,044 in 2021	311,916	-	-	311,916	-	311,916	205,561
Dividends and interest, net	6,585	545,886	-	552,471	231,556	784,027	902,141
Gain from forgiveness of notes payable	-	-	-	-	-	-	1,733,100
Net realized and unrealized gains (losses) on investments	218	(8,290,267)	-	(8,290,049)	1,274,801	(7,015,248)	15,093,001
Rental income	359,728	-	-	359,728	-	359,728	138,088
Museum store	116,790	-	-	116,790	-	116,790	136,338
Exhibition income	165,253	-	-	165,253	-	165,253	545,263
Admission fees	435,536	-	-	435,536	-	435,536	400,794
Miscellaneous	219,117	-	-	219,117	-	219,117	160,826
Transfers/appropriations	2,065,493	(2,065,493)	-	-	-	-	-
	7,551,444	(9,052,924)	-	(1,501,480)	2,465,243	963,763	25,153,852
Net assets released from restrictions	1,764,239	298,164	-	2,062,403	(2,062,403)	-	-
Total Revenue, Gains, and Other Support	9,315,683	(8,754,760)	-	560,923	402,840	963,763	25,153,852

McNay Art Museum

Statement of Activities and Changes in Net Assets (with summarized comparative totals for 2021)

Year ended June 30,

	Without Donor Restrictions					Total	
	Operating	Non-Operating	Land, Buildings, and Equipment	Total		With Donor Restrictions	2022
Expenses							
Program services:							
Curatorial and conservation	\$ 1,697,480	\$ 1,109	\$ 347,508	\$ 2,046,097	\$ -	\$ 2,046,097	\$ 1,814,189
Exhibitions and presentations	3,270,898	-	735,900	4,006,798	-	4,006,798	3,584,520
Education	1,056,556	-	674,575	1,731,131	-	1,731,131	1,483,112
Public relations, marketing, and media	336,940	-	20,442	357,382	-	357,382	151,567
Support services:							
Management and general	751,473	-	224,858	976,331	-	976,331	1,025,411
Fundraising	690,626	-	40,883	731,509	-	731,509	745,068
Total Expenses	7,803,973	1,109	2,044,166	9,849,248	-	9,849,248	8,803,867
Change in Net Assets, before changes related to collection items not capitalized and non- operating transfers	1,511,710	(8,755,869)	(2,044,166)	(9,288,325)	402,840	(8,885,485)	16,349,985
Changes Related to Collection Items Not Capitalized	-	(405,306)	-	(405,306)	-	(405,306)	(1,379,052)
Net Gain (Loss) on Disposal of Assets	-	-	1,790	1,790	-	1,790	(18,199)
Transfers Not Affecting Operations	(690,939)	-	690,939	-	-	-	-
Change in Net Assets	820,771	(9,161,175)	(1,351,437)	(9,691,841)	402,840	(9,289,001)	14,952,734
Net Assets, beginning of year	4,118,713	24,947,895	26,242,447	55,309,055	42,331,584	97,640,639	82,687,905
Net Assets, end of year	\$ 4,939,484	\$ 15,786,720	\$ 24,891,010	\$ 45,617,214	\$ 42,734,424	\$ 88,351,638	\$ 97,640,639

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

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Statement of Functional Expenses (with summarized comparative totals for 2021)

Year ended June 30,

	Program Services					Support Services			Total	
	Curatorial and Conservation	Exhibitions and Presentations	Education	Relations, Media and Marketing	Total Program Services	Management and General	Fundraising	Total Support Services	2022	2021
Salaries and wages	\$ 957,115	\$ 1,778,465	\$ 578,056	\$ 201,451	\$ 3,515,087	\$ 210,644	\$ 363,317	\$ 573,961	\$ 4,089,048	\$ 3,818,107
Payroll taxes	66,207	123,024	39,986	13,935	243,152	14,571	25,132	39,703	282,855	289,006
Employee benefits	164,177	305,068	99,158	34,556	602,959	36,134	62,321	98,455	701,414	616,630
Professional fees	28,713	29,478	35,808	22,062	116,061	144,545	3,576	148,121	264,182	253,781
Supplies	10,340	15,621	15,679	16,882	58,522	39,402	11,057	50,459	108,981	86,632
Communications	4,676	5,386	1,668	1,324	13,054	24,164	2,238	26,402	39,456	38,433
Postage and freight	6,805	297	361	8	7,471	1,084	6,930	8,014	15,485	12,564
Occupancy	152,027	190,821	170,128	2,130	515,106	53,654	27,376	81,030	596,136	291,858
Equipment rental and maintenance	35,961	58,073	42,000	2,088	138,122	74,574	48,073	122,647	260,769	410,963
Printing and publication	13,400	12,526	9,214	982	36,122	6,594	29,910	36,504	72,626	72,294
Marketing, advertising, and publicity	650	-	1,031	13,856	15,537	-	24,875	24,875	40,412	41,414
Travel	1,918	2,328	2,564	-	6,810	10,750	1,110	11,860	18,670	3,266
School busing	-	-	4,112	-	4,112	-	-	-	4,112	-
Conferences, seminars, and meetings	3,622	6,121	14,330	-	24,073	9,039	1,282	10,321	34,394	4,109
Organization dues and subscriptions	1,923	1,468	1,451	7,096	11,938	15,616	838	16,454	28,392	32,087
Insurance	202,885	63,407	28,181	14,090	308,563	8,454	-	8,454	317,017	297,728
Store cost of sales	-	64,518	-	-	64,518	-	-	-	64,518	125,347
Maintenance of collection	48,006	-	-	-	48,006	-	-	-	48,006	27,961
Concerts, films, etc.	-	27,170	11,805	6,443	45,418	-	-	-	45,418	8,960
Exhibitions	-	586,958	-	-	586,958	-	-	-	586,958	388,276
Credit card fees	-	-	-	-	-	-	43,833	43,833	43,833	34,075
Assessments	-	-	-	-	-	-	30,404	30,404	30,404	16,967
Miscellaneous	164	169	1,024	37	1,394	102,248	8,354	110,602	111,996	70,878
Special events expenses	-	-	-	-	-	-	177,204	177,204	177,204	49,044
	1,698,589	3,270,898	1,056,556	336,940	6,362,983	751,473	867,830	1,619,303	7,982,286	6,990,380
Depreciation	347,508	735,900	674,575	20,442	1,778,425	224,858	40,883	265,741	2,044,166	1,862,531
Total Expenses	2,046,097	4,006,798	1,731,131	357,382	8,141,408	976,331	908,713	1,885,044	10,026,452	8,852,911
Less: expenses netted in revenue:										
Special events expenses	-	-	-	-	-	-	(177,204)	(177,204)	(177,204)	(49,044)
Total Functional Expenses	\$ 2,046,097	\$ 4,006,798	\$ 1,731,131	\$ 357,382	\$ 8,141,408	\$ 976,331	\$ 731,509	\$ 1,707,840	\$ 9,849,248	\$ 8,803,867

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

McNay Art Museum
Statements of Cash Flows

<i>Year ended June 30,</i>	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ (9,289,001)	\$ 14,952,734
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,044,166	1,862,531
Bad debt	-	1,250
Contributions restricted in perpetuity	-	(664,239)
Net realized and unrealized losses (gains) on investments	7,015,248	(15,093,001)
Net (gain) loss on disposal of assets	(1,790)	18,199
Gain from forgiveness of notes payable	-	(1,733,100)
Change in operating activities:		
Accounts and interest receivable	(356,275)	10,492
Contributions receivable	340,307	1,489,102
Prepaid expenses and other	(64,662)	955,724
Accounts payable and accrued expenses	27,581	(319,919)
Deferred revenue	(26,312)	42,568
Net Cash Provided by (Used in) Operating Activities	(310,738)	1,522,341
Cash Flows from Investing Activities		
Purchase of land, building, and equipment	(437,005)	(1,985,549)
Proceeds of land, building, and equipment	1,790	-
Proceeds from sale of investments	29,372,734	19,384,742
Purchase of investments	(27,223,104)	(18,748,423)
Net Cash Provided by (Used in) Investing Activities	1,714,415	(1,349,230)
Cash Flows from Financing Activities		
Proceeds from notes payable	-	856,400
Contributions restricted in perpetuity	-	664,239
Net Cash Provided by Financing Activities	-	1,520,639
Net Increase in Cash and Cash Equivalents	1,403,677	1,693,750
Cash and Cash Equivalents, beginning of year	5,406,669	3,712,919
Cash and Cash Equivalents, end of year	\$ 6,810,346	\$ 5,406,669

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 (U.S. 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 (see Notes 11 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Museum’s financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statements 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.

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Notes to Financial Statements

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. No allowance has been established based on its historical collections experience. The Museum recognized no bad debts from accounts receivable as of June 30, 2022 and 2021.

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. Pledges receivable are recorded at the original pledge amount, net of a present value discount, which approximates net realizable value. Management reviews all outstanding amounts and determines collectability based on past experience with the Museum's donors. As of June 30, 2022 and 2021 no allowance has been established against these receivables as management considers them collectible. The Museum recognized bad debts from contributions receivable of \$0 and \$1,250 as of June 30, 2022 and 2021, respectively.

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.

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

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 \$5,000 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:

<u>Asset Category</u>	<u>Years</u>
Buildings, improvements, and landscaping	25
Furniture and equipment	10

The Museum reviews the carrying values of land, buildings, and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair

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Notes to Financial Statements

value of the asset. There were no indicators of asset impairment during the years ended June 30, 2022 and 2021.

Art Collection

In conformity with industry practice, items purchased or donated for the collection are not recorded as assets in the accompanying statements 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 \$633,900 and \$263,800 for the years ended June 30, 2022 and 2021, respectively.

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

Revenue Recognition

Effective July 1, 2020, the Museum adopted Accounting Standards Codification (ASC), *Revenue from Contracts with Customers (ASC 606)*, using the modified retrospective method. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as contributions and financial instruments. Under ASC 606, an entity recognizes revenue when it transfers control of the promised goods or services to its customer, in an amount that reflects the consideration which the entity expects to receive in exchange for these goods or services. If control transfers to the customer over time, an entity selects a method to measure progress that is consistent with the objective of depicting its performance. There was no impact upon adoption of ASC 606. As a result, no disclosure of the impact is applicable.

The majority of the Museum's revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. Based on the Museum's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

Admissions, rental income, museum store income, and other miscellaneous income are recorded net of any applicable discounts at the point in time that the performance obligation is met.

Special events revenue is deferred and recorded at the point in time that the event occurs, net of direct cost of benefits to attendees.

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

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Contributions

The Museum follows Accounting Standards Update (ASU) 2018-08, *Not-For-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU provided guidance in evaluating whether transactions should be accounted for as contributions or as exchange transactions subject to other guidance. Based on this guidance, the Museum determined all contributions are nonreciprocal transactions, and as such are properly accounted for as 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 and changes in net assets 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 determined memberships to be nonreciprocal transactions as member benefits received are not considered material; therefore Membership revenue is recorded in accordance with ASC 958 as without donor-restricted support when the membership agreement is executed.

The Museum reports exhibition sponsorships as donor-restricted support since they are typically received for a specific exhibit. The donor restriction expires when the assets are used for the exhibit and reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Donated Goods and Services

The Museum received in-kind contributions of goods and services. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Museum. Donated goods are reported as in-kind contributions revenue and expense on the statements of activities and changes in net assets (see Note 12).

Fair Value of Financial Instruments

The *Fair Value Measurements and Disclosures* Topic, 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 - This level consists of inputs that utilize quoted prices (unadjusted) in active markets for identical assets that the Museum has the ability to access.

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Notes to Financial Statements

Level 2 - This level consists of 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 - This level consists of 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.

Privately held 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, 2022 and 2021, the Museum did not recognize any interest or penalties in the financial statements.

Tax years 2019 to 2021 remain open to examination by the taxing jurisdictions to which the Museum is subject, 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 statement of activities and changes in net assets and statement of functional expenses. Accordingly, certain costs have been allocated between the programs and supporting services benefited. The allocation of building, supplies, and maintenance are 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.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$40,412 and \$41,414 for the years ended June 30, 2022 and 2021, respectively.

Estimates

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

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Notes to Financial Statements

Accounting Pronouncements issued but Not Yet Adopted

Leases (Topic 842)

In February 2016, the Financial Accounting Standards Board (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 annual periods beginning after December 15, 2021, which is the year ending June 30, 2023, with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

Financial Instruments - Credit Losses (Topic 326)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, including subsequent amendments issued thereafter which clarify the standard (collectively, Topic 326). This standard significantly changes the impairment model for most financial instruments. Current guidance requires the changes the recognition of credit losses based on an incurred loss impairment methodology that reflects losses once the losses are probable. In accordance with Topic 326, the Museum will be required to use a current expected credit loss model (CECL) that will immediately recognize an estimate of credit losses that are expected to occur over the life of the financial instruments that are within the scope of this update, including trade receivables. The CECL model uses a broader range of reasonable and supportable information in the development of credit loss estimates. This guidance becomes effective for the Museum beginning the fiscal year ended June 30, 2023. The Museum is still assessing the impact to the consolidated financial statements.

Reclassifications

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

2. Concentration Risk

Financial instruments that 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:

<i>Year ended June 30,</i>	2022	2021
Cash and cash equivalents	\$ 6,810,346	\$ 5,406,669
Accounts receivable	439,262	82,987
Contributions receivable - current	184,600	457,907
Investments appropriated for current use	7,061,209	7,387,003
	\$ 14,495,417	\$ 13,334,566

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, 2022 and 2021 amounted to \$434,600 and \$774,907, respectively.

Pledges receivable are expected to be collected as follows:

<i>Year ending June 30,</i>	
2023	\$ 184,600
2024	50,000
2025	50,000
2026	50,000
2027	50,000
Thereafter	50,000
Total Contributions Receivable	\$ 434,600

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Notes to Financial Statements

No discount has been applied to the contributions receivable at June 30, 2022 and 2021, as the amount is immaterial to the 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 \$392,156 and \$356,335 were withdrawn from the account during the years ended June 30, 2022 and 2021, respectively; therefore, valuation of the investments at year-end reflects value net of fees.

Total investments are composed of the following:

June 30,

	Fair Value	
	2022	2021
Money market funds	\$ 567,241	\$ 3,153,376
US Treasury Notes	4,275,827	-
Corporate debt securities	14,289,265	13,347,117
Equity securities	31,955,799	39,283,176
Limited partnership - publicly traded	595,480	2,724,766
Limited partnership - privately held	3,235,834	3,828,754
Alternative investments	1,270,973	3,018,108
	\$ 56,190,419	\$ 65,355,297

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, and (3) amount designated by the Board to be available for operational cash flow needs. This amount is determined annually.

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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, the Museum assets at fair value:

June 30, 2022

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 567,241	\$ -	\$ -	\$ 567,241
US Treasury Notes	4,275,827	-	-	4,275,827
Corporate debt securities	14,289,265	-	-	14,289,265
Equity securities	31,955,799	-	-	31,955,799
Limited partnership publicly traded	595,480	-	-	595,480
Alternate investments	1,270,973	-	-	1,270,973
Total Assets, at fair value	\$ 52,954,585	\$ -	\$ -	\$ 52,954,585
Limited Partnerships, measured at NAV				\$ 3,235,834

June 30, 2021

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 3,153,376	\$ -	\$ -	\$ 3,153,376
Corporate debt securities	13,347,117	-	-	13,347,117
Equity securities	39,283,176	-	-	39,283,176
Limited partnership publicly traded	2,724,766	-	-	2,724,766
Alternative investments	3,018,108	-	-	3,018,108
Total Assets, at fair value	\$ 61,526,543	\$ -	\$ -	\$ 61,526,543
Limited Partnerships, measured at NAV				\$ 3,828,754

7. Land, Buildings, and Equipment

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

<i>Year ended June 30,</i>	2022	2021
Land	\$ 585,962	\$ 585,962
Buildings, improvements, and landscaping	56,407,330	55,937,842
Furniture and equipment	2,708,226	2,486,774
Total Land, Buildings, and Equipment	59,701,518	59,010,578
Accumulated depreciation	(35,090,202)	(33,046,035)
Net Land, Buildings, and Equipment, before construction in progress	\$ 24,611,316	\$ 25,964,543
Construction in progress	\$ 31,971	\$ 285,905

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Notes to Financial Statements

Depreciation expense totaled \$2,044,166 and \$1,862,531 for the years ended June 30, 2022 and 2021, respectively. For fiscal year 2022, the Museum sold a fully depreciated asset for \$1,790. In fiscal year 2021, the Museum disposed of assets with a net book value of \$50,784 and recognized a loss of \$18,199 in the statement of activities.

8. Notes Payable

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted. The CARES Act is an approximately \$2 trillion emergency economic stimulus package in response to the Coronavirus outbreak, which among other things contains numerous income tax provisions. Some of these tax provisions are expected to be effective retroactively for years ending before the date of enactment. It also appropriated funds for the Small Business Administration (SBA) Paycheck Protection Program (PPP) loans that are forgivable in certain situations to promote continued employment.

On April 16, 2020, the Museum was approved and obtained a loan in the amount of \$876,700 with a bank with maturity date of April 16, 2022 under PPP loans. On January 25, 2021, the Museum was approved and obtained the second round of PPP loan in the amount of \$856,400 with a bank with maturity date of January 27, 2026 under PPP loans. The forgiveness of the loan attendant to these funds is dependent on the Museum's adherence to the forgiveness criteria.

For the fiscal year ended June 30, 2021, the Museum received notice of forgiveness from the SBA in the amount of \$1,733,100. Forgiveness of the PPP loans is recorded in gains on forgiveness of debt, within the statement of activities and changes in net assets.

9. Operating Leases

The Museum has several non-cancelable operating leases for equipment that expire at different dates through June 2027. The following are future minimum lease payments under these leases:

Year ending June 30,

2023	\$	41,208
2024		41,208
2025		41,208
2026		41,208
2027		41,208
Thereafter		10,302
Total Operating Leases	\$	216,342

Total expense was \$48,196 and \$72,295 for the years ended June 30, 2022 and 2021, respectively.

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Notes to Financial Statements

10. Net Assets

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

<i>Year ended June 30,</i>	2022	2021
Perpetual in nature:		
Auditorium and gallery maintenance	\$ 700,000	\$ 700,000
Art acquisitions	737,691	737,691
Educational programs, exhibitions, and presentations	10,497,744	10,177,381
Curatorial and conservation	2,664,239	2,664,239
Director's Chair	1,000,000	1,000,000
Any activities of the museum	19,184,684	19,184,684
Subject to expenditure for specified purpose and time:		
Art acquisitions/conservation**	3,491,449	3,223,226
Educational programs, exhibitions, and presentations**	3,060,394	3,259,218
Capital campaign	226,109	328,413
Other**	1,172,114	1,056,732
Net Assets with Donor Restrictions	\$ 42,734,424	\$ 42,331,584

** Noted items include accumulated earnings on donor restricted endowments totaling \$5,823,617 and \$5,495,317 as of June 30, 2022 and 2021, respectively (see Note 15).

Net assets without donor restrictions consist of the following:

<i>Year ended June 30,</i>	2022	2021
Undesignated	\$ 17,992,258	\$ 26,326,575
Designated for land, buildings, and equipment	24,891,010	26,242,447
Board-designated	2,733,946	2,740,033
Net Assets Without Donor Restrictions	\$ 45,617,214	\$ 55,309,055

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>Year ended June 30,</i>	2022	2021
Art acquisitions	\$ 405,306	\$ 1,379,052
Exhibitions, presentation, and education	1,333,135	909,602
Capital campaign	102,804	1,866,837
Other	221,158	90,678
Total Net Assets Released from Restrictions	\$ 2,062,403	\$ 4,246,169

Transfers and appropriations on the statement of activities and change in net assets reflect investment returns appropriated from endowments of \$1,938,341 (see Note 15).

McNay Art Museum

Notes to Financial Statements

12. Donated Goods and Services

A substantial number of volunteers have made significant contributions of their time to develop the Museum, especially its fundraising and educational programs. Approximately 6,559 and 5,200 volunteer hours were contributed during each of the years ended June 30, 2022 and 2021, respectively. The volunteer hours noted above do not meet the criteria described in Note 1 and, therefore, are not recorded in the financial statements. Goods and services received for the years ended June 30, 2022 and 2021 were valued at \$2,110 and \$24,583, respectively. All donated goods were utilized by the Museum's programs. There were no donor-imposed restrictions associated with the donated goods. Donated goods are valued at the wholesale prices that would be received for selling similar products.

13. Objects Held for Display

Objects held for display (the Museum collection) consist primarily of a strong collection of nineteenth and twentieth 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 statements 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 has a defined contribution 403(b) retirement plan (the Plan) effective April 2003 through January 1, 2020, when the plan was frozen. No new participants or contributions will be accepted into this plan.

Effective January 1, 2020, the Museum established a Safe-Harbor 403(b) Thrift Plan (the Safe-Harbor Plan) and makes bi-weekly contributions to the Safe-Harbor Plan on behalf of eligible employees. The Plan investments are employee-directed. Under the Safe-Harbor Plan, eligible employees working more than 20 hours per week are eligible for a 100% matching employer contribution up to 6%, beginning on the first anniversary of their hire date, after completion of 1000 hours of service, and attaining the age of 20 years.

The Museum contributed \$93,721 and \$112,903 to the plans for the fiscal years ended June 30, 2022 and 2021, 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.

McNay Art Museum

Notes to Financial Statements

This policy defines the Museum's interpretation of the provisions of this law as they relate to the prudent management of its endowment fund.

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 years ended June 30, 2022 and 2021, the distribution percentage was 4.75%. 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:

- The duration and preservation of the fund.
- The purposes of the Museum and the endowment fund with donor restrictions.
- General economic and investment market conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.

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Notes to Financial Statements

- Other resources of the Museum.
- The investment policies of the Museum.

Endowment Composition by Type of Fund

June 30, 2022

	Without Donor Restrictions*	With Donor Restrictions	Total
Board-designated endowment funds	\$ 2,733,946	\$ -	\$ 2,733,946
Donor endowment funds	8,473,260	40,607,975	49,081,235
Total Funds	\$ 11,207,206	\$ 40,607,975	\$ 51,815,181

June 30, 2021

	Without Donor Restrictions*	With Donor Restrictions	Total
Board-designated endowment funds	\$ 2,740,033	\$ -	\$ 2,740,033
Donor endowment funds	17,639,971	39,959,312	57,599,283
Total Funds	\$ 20,380,004	\$ 39,959,312	\$ 60,339,316

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

Changes in Endowment

Year ended June 30, 2022

	Without Donor Restrictions*	With Donor Restrictions	Total
Endowment, beginning of period	\$ 20,380,004	\$ 39,959,312	\$ 60,339,316
Investment return:			
Interest and dividends	489,477	222,146	711,623
Net (depreciation) appreciation (realized and unrealized)	(7,725,460)	1,219,594	(6,505,866)
Total Investment Return	13,144,021	41,401,052	54,545,073
Contributions	1,526	4,650	6,176
Transfers/appropriations	(1,938,341)	-	(1,938,341)
Release from restriction:			
Art acquisitions	-	(120,469)	(120,469)
Exhibitions, presentation, and education	-	(648,704)	(648,704)
Other	-	(28,554)	(28,554)
Total Funds	\$ 11,207,206	\$ 40,607,975	\$ 51,815,181

McNay Art Museum

Notes to Financial Statements

Year ended June 30, 2021

	Without Donor Restrictions*	With Donor Restrictions	Total
Endowment, beginning of period	\$ 9,331,661	\$ 38,465,908	\$ 47,797,569
Investment return:			
Interest and dividends	612,437	227,998	840,435
Net appreciation (realized and unrealized)	12,433,776	1,776,100	14,209,876
Total Investment Return	22,377,874	40,470,006	62,847,880
Contributions	-	664,239	664,239
Transfers/appropriations	(1,997,870)	-	(1,997,870)
Release from restriction:			
Art acquisitions	-	(910,930)	(910,930)
Exhibitions, presentation, and education	-	(256,781)	(256,781)
Other	-	(7,222)	(7,222)
Total Funds	\$ 20,380,004	\$ 39,959,312	\$ 60,339,316

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

16. Employee Retention Credit

The CARES Act provided an Employee Retention Credit (ERC), which was a refundable tax credit against certain employment taxes for eligible employers. Additional relief provisions were passed by the United States government, which extended and expanded the qualified wage caps on those credits through December 31, 2021. Based on these additional provisions, the tax credit equaled 70% of qualified wages paid to employees during a quarter. The limit on qualified wages per employee was capped at \$10,000. During the fiscal year ended June 30, 2022, the Museum applied for \$814,663 and received \$468,759 in ERCs under the CARES Act as of June 30, 2022. The ERCs were recorded as contributions in the statement of activities and changes in net assets. As of June 30, 2022, the remaining ERC amount of \$345,904 was recorded in accounts and interest receivable in the statement of financial position.

17. Subsequent Events

Management has evaluated events subsequent to June 30, 2022 and through October 14, 2022, which is the date the financial statements were available to be issued.