

The Heritage Society

Financial Statements
and Independent Accountants' Review Report
for the years ended May 31, 2015 and 2014

Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Accountants' Review Report

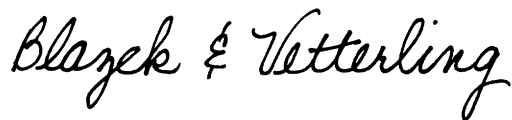
To the Board of Directors of
The Heritage Society:

We have reviewed the accompanying statements of financial position of The Heritage Society as of May 31, 2015 and 2014 and the related statements of activities, of functional expenses, and of cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of The Heritage Society's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.



September 9, 2015

The Heritage Society

Statements of Financial Position as of May 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 366,115	\$ 352,695
Pledges receivable	295,652	343,742
Prepaid and other assets	11,756	12,366
Property and equipment, net (<i>Note 3</i>)	32,997	45,177
Investments (<i>Note 4</i>)	1,138,180	1,185,219
Collections (<i>Note 5</i>)	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 1,844,700</u>	<u>\$ 1,939,199</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 91,414	\$ 12,168
Deferred revenue	7,825	25,813
Line of credit (<i>Note 6</i>)	<u>98,000</u>	<u>87,000</u>
Total liabilities	<u>197,239</u>	<u>124,981</u>
Commitments (<i>Note 10</i>)		
Net assets (<i>Note 8</i>):		
Unrestricted (<i>Note 12</i>)	(83,626)	(71,025)
Temporarily restricted (<i>Note 7</i>)	638,643	792,799
Permanently restricted	<u>1,092,444</u>	<u>1,092,444</u>
Total net assets	<u>1,647,461</u>	<u>1,814,218</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,844,700</u>	<u>\$ 1,939,199</u>

See accompanying notes to financial statements and independent accountants' review report.

The Heritage Society

Statement of Activities for the year ended May 31, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions (Note 9)	\$ 628,499	\$ 726,869		\$ 1,355,368
Fundraising events	191,939			191,939
Direct donor benefits of fundraising events	(53,725)			(53,725)
Admissions and tours	81,170			81,170
Facility rental income	66,215			66,215
Investment return, net (Note 4)		15,067		15,067
Other income	<u>5,851</u>	<u></u>		<u>5,851</u>
Total revenue	919,949	741,936		1,661,885
Net assets released from restrictions:				
Expenditures for program purposes	818,717	(818,717)		
Expiration of time restrictions	<u>77,375</u>	<u>(77,375)</u>		<u></u>
Total	<u>1,816,041</u>	<u>(154,156)</u>		<u>1,661,885</u>
EXPENSES:				
Program services	1,545,461			1,545,461
Management and general	140,289			140,289
Fundraising	<u>142,892</u>			<u>142,892</u>
Total expenses	<u>1,828,642</u>			<u>1,828,642</u>
CHANGES IN NET ASSETS	(12,601)	(154,156)		(166,757)
Net assets, beginning of year	<u>(71,025)</u>	<u>792,799</u>	<u>\$ 1,092,444</u>	<u>1,814,218</u>
Net assets, end of year	<u>\$ (83,626)</u>	<u>\$ 638,643</u>	<u>\$ 1,092,444</u>	<u>\$ 1,647,461</u>

See accompanying notes to financial statements and independent accountants' review report.

The Heritage Society

Statement of Activities for the year ended May 31, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions (<i>Note 9</i>)	\$ 424,769	\$ 561,789		\$ 986,558
Fundraising events	65,375			65,375
Direct donor benefits of fundraising events	(3,327)			(3,327)
Admissions and tours	97,839			97,839
Facility rental income	60,553			60,553
Investment return, net (<i>Note 4</i>)		109,114		109,114
Other income	<u>6,673</u>	<u></u>		<u>6,673</u>
Total revenue	651,882	670,903		1,322,785
Net assets released from restrictions:				
Expenditures for program purposes	284,569	(284,569)		
Expiration of time restrictions	<u>143,707</u>	<u>(143,707)</u>		<u></u>
Total	<u>1,080,158</u>	<u>242,627</u>		<u>1,322,785</u>
EXPENSES:				
Program services	788,321			788,321
Management and general	120,628			120,628
Fundraising	<u>128,778</u>			<u>128,778</u>
Total expenses	<u>1,037,727</u>			<u>1,037,727</u>
CHANGES IN NET ASSETS	42,431	242,627		285,058
Net assets, beginning of year	<u>(113,456)</u>	<u>550,172</u>	<u>\$ 1,092,444</u>	<u>1,529,160</u>
Net assets, end of year	<u>\$ (71,025)</u>	<u>\$ 792,799</u>	<u>\$ 1,092,444</u>	<u>\$ 1,814,218</u>

See accompanying notes to financial statements and independent accountants' review report.

The Heritage Society

Statement of Functional Expenses for the year ended May 31, 2015

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related taxes and benefits	\$ 504,271	\$ 85,238	\$ 58,628	\$ 648,137
Historic home restoration and repair	645,465			645,465
Equipment rental and maintenance	181,632	453	1,965	184,050
Professional fees and contract services	54,799	26,592	54,410	135,801
Occupancy	65,266	4,770	4,770	74,806
Insurance	19,275	6,228		25,503
Materials and supplies	16,534	1,016	7,582	25,132
Telephone and technology	16,896	2,264	978	20,138
Event catering	13,653	509	196	14,358
Depreciation	7,309	2,436	2,435	12,180
Advertising and promotion	2,540		7,870	10,410
Printing and publications	7,543	339	1,923	9,805
Interest, bank and credit card fees	64	9,282		9,346
Postage and handling	2,843	408	1,051	4,302
Other	<u>7,371</u>	<u>754</u>	<u>1,084</u>	<u>9,209</u>
Total expenses	<u>\$ 1,545,461</u>	<u>\$ 140,289</u>	<u>\$ 142,892</u>	1,828,642
Direct donor benefits of fundraising events				53,725
Custodial and investment advisory fees				<u>10,857</u>
Total				<u>\$ 1,893,224</u>

See accompanying notes to financial statements and independent accountants' review report.

The Heritage Society

Statement of Functional Expenses for the year ended May 31, 2014

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related taxes and benefits	\$ 474,841	\$ 77,880	\$ 55,803	\$ 608,524
Historic home restoration and repair	126,068			126,068
Equipment rental and maintenance	5,866	482	482	6,830
Professional fees and contract services	38,781	18,414	51,557	108,752
Occupancy	59,952	4,700	4,700	69,352
Insurance	18,983	6,169		25,152
Materials and supplies	24,321	1,062	7,044	32,427
Telephone and technology	15,809	1,257	1,217	18,283
Depreciation	10,005	3,335	3,335	16,675
Advertising and promotion	2,750			2,750
Printing and publications	5,100	64	1,686	6,850
Interest, bank and credit card fees		6,930	330	7,260
Postage and handling	2,700	51	1,781	4,532
Other	<u>3,145</u>	<u>284</u>	<u>843</u>	<u>4,272</u>
Total expenses	<u>\$ 788,321</u>	<u>\$ 120,628</u>	<u>\$ 128,778</u>	1,037,727
Direct donor benefits of fundraising events				3,327
Custodial and investment advisory fees				<u>12,981</u>
Total				<u>\$ 1,054,035</u>

See accompanying notes to financial statements and independent accountants' review report.

The Heritage Society

Statements of Cash Flows for the years ended May 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (166,757)	\$ 285,058
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized (gain) loss on investments	2,964	(92,070)
Depreciation	12,180	16,675
Changes in operating assets and liabilities:		
Pledges receivable	48,090	(435)
Prepaid and other assets	610	2,170
Accounts payable and accrued expenses	79,246	(2,346)
Deferred revenue	<u>(17,988)</u>	<u>10,250</u>
Net cash provided (used) by operating activities	<u>(41,655)</u>	<u>219,302</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(820,958)	(30,200)
Proceeds from sales and maturities of investments	605,419	312,191
Net sale (purchase) of money market mutual funds	259,614	(233,583)
Purchases of property and equipment	<u> </u>	<u>(24,620)</u>
Net cash provided by investing activities	<u>44,075</u>	<u>23,788</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on line of credit	126,000	209,000
Payments on line of credit	<u>(115,000)</u>	<u>(122,000)</u>
Net cash provided by financing activities	<u>11,000</u>	<u>87,000</u>
NET CHANGE IN CASH	13,420	330,090
Cash, beginning of year	<u>352,695</u>	<u>22,605</u>
Cash, end of year	<u><u>\$ 366,115</u></u>	<u><u>\$ 352,695</u></u>

See accompanying notes to financial statements and independent accountants' review report.

The Heritage Society

Notes to Financial Statements for the years ended May 31, 2015 and 2014

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – The Heritage Society (THS), a museum complex at Sam Houston Park, was incorporated in 1954 as a nonprofit corporation. THS collects, preserves, exhibits, and celebrates the diverse history of the Houston region. THS is supported by voluntary contributions of time and money from members and the community in connection with fundraising campaigns and events and by gifts of historical items.

Federal income tax status – THS is exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2). THS files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. THS believes it is no longer subject to examinations of returns for tax years ended before May 31, 2012.

Cash concentration – Bank deposits exceed the federally insured limit per depositor per institution.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted, if material, to estimate the present value of future cash flows. At May 31, 2015, pledges receivable of \$266,902 are due in 2016 and pledges receivable of \$28,750 are due in 2017 through 2018.

Property and equipment is reported at cost if purchased and at estimated fair value at the date of contribution if donated. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 25 years.

Investments are reported at fair value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets until expended in accordance with donor-imposed restrictions.

Collections – Collections, which were acquired through purchases and contributions, are not recognized as assets in the statement of financial position. Purchases of collection items are recognized as decreases in unrestricted net assets in the year in which the items are acquired or as decreases in temporarily restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Net asset classification – Revenue and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.

- *Temporarily restricted net assets* include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. Investment return from these funds is donor-restricted to support maintenance of historical structures, grounds, and collections.

Contributions are recognized as revenue at estimated fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit the use of the donated assets are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Non-cash contributions – Donated materials and use of facilities are recognized at fair value as contributions when an unconditional commitment is received from a donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Admission and tour fees are recognized when services are provided.

Facility rental income is recognized when services are provided. Amounts received in advance are reflected as deferred revenue in the statement of financial position.

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

NOTE 2 – AGREEMENT WITH THE CITY OF HOUSTON

THS operates a museum and ten historical structures located in Sam Houston Park (the Park) under an agreement with the City of Houston (the City). The agreement is subject to certain restrictions set by the City, and THS does not have exclusive use of the land. The current agreement terminates in June 2039. Titles to all buildings located in the Park are vested in the City. Titles to newly acquired buildings are transferred to the City within 15 days of completed installation.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2015</u>	<u>2014</u>
Gallery and exhibition fixtures	\$ 162,253	\$ 162,253
Furniture and equipment	<u>215,036</u>	<u>215,036</u>
Total property and equipment, at cost	377,289	377,289
Accumulated depreciation	<u>(344,292)</u>	<u>(332,112)</u>
Property and equipment, net	<u>\$ 32,997</u>	<u>\$ 45,177</u>

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

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

Assets measured at fair value at May 31, 2015 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity securities:				
Large-cap exchange-traded funds	\$ 342,205			\$ 342,205
International developed:				
Exchange-traded funds	144,609			144,609
Mutual funds	78,505			78,505
International emerging mutual funds	68,166			68,166
Mid-cap exchange-traded funds	55,642			55,642
Small-cap mutual funds	37,793			37,793
Fixed-income securities:				
Corporate and other bonds		\$ 275,556		275,556
Money market mutual funds	53,448			53,448
Global real estate index mutual fund	48,441			48,441
Exchange-traded commodity fund	33,815			33,815
Total assets measured at fair value	<u>\$ 862,624</u>	<u>\$ 275,556</u>	<u>\$ 0</u>	<u>\$ 1,138,180</u>

Assets measured at fair value at May 31, 2014 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity securities:				
International developed exchange-traded funds	\$ 217,600			\$ 217,600
International emerging mutual funds	100,225			100,225
Mid-cap exchange-traded funds	78,975			78,975
Small-cap mutual funds	78,401			78,401
Fixed-income securities:				
Corporate and other bonds		\$ 227,142		227,142
Money market mutual funds	313,062			313,062
Global real estate index mutual fund	83,835			83,835
Exchange-traded commodity fund	85,979			85,979
Total assets measured at fair value	<u>\$ 958,077</u>	<u>\$ 227,142</u>	<u>\$ 0</u>	<u>\$ 1,185,219</u>

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

- *Exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the reported net asset value.
- *Fixed-income securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas to calculate fair values.

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

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

Investment return consists of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 28,888	\$ 30,025
Net realized and unrealized gain (loss) on investments	(2,964)	92,070
Custodial and investment advisory fees	<u>(10,857)</u>	<u>(12,981)</u>
Investment return, net	<u>\$ 15,067</u>	<u>\$ 109,114</u>

NOTE 5 – COLLECTIONS

THS's collections are made up of historical artifacts that are held for educational, research, and curatorial purposes. Each of the items is catalogued, preserved, and cared for, and activities verifying existence and assessing condition are performed periodically. The collections are subject to a policy that requires proceeds from the sale or other disposition of collection items to be used to acquire other items for the collections. Proceeds from sales of collection items that were contributed with restrictions are reflected as an increase in temporarily restricted net assets in the statement of activities. During 2015 and 2014, various collection items including paper archival materials, furniture, housewares, and other accessories were deaccessioned from the permanent collection.

NOTE 6 – LINE OF CREDIT

THS has a \$100,000 unsecured line of credit with a bank which matures on November 30, 2015. Amounts outstanding under the line bear interest at the greater of the bank's prime rate plus 0.5% (5.5% at May 31, 2015) or 5.0%. Interest expense recognized and paid was approximately \$4,000 in 2015 and \$2,000 in 2014.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Maintenance of historical structures	\$ 491,507	\$ 597,938
Museum collections	110,886	110,886
Time-restricted for future operations	28,750	77,375
Other	<u>7,500</u>	<u>6,600</u>
Total temporarily restricted net assets	<u>\$ 638,643</u>	<u>\$ 792,799</u>

NOTE 8 – ENDOWMENT FUNDS

THS maintains an endowment fund comprised of both donor-restricted endowment funds, which are maintained in accordance with explicit donor stipulations, and unrestricted assets set aside by the Board of Directors (the Board). The endowment fund is invested to support maintenance of historical structures, grounds and collections.

The Board has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, THS classifies the amount specified by explicit donor stipulation as an endowment as permanently restricted net assets. This amount is not reduced by losses on investments in the endowment fund or by approved appropriations for expenditure from the fund. The portion of the donor-restricted endowment funds not classified as permanently restricted net assets is classified as temporarily restricted net assets until appropriated for expenditure. Temporarily restricted net assets are reclassified to unrestricted net assets for the amount appropriated when the purpose restriction has been met. Assets designated by the Board to function as an endowment for maintenance of historical structures are classified as unrestricted net assets. In accordance with TUPMIFA, THS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of THS and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of THS
- The investment policies of THS

Endowment funds are maintained in a separate investment account, which is managed by an independent financial firm that follows guidance provided in an investment policy approved by the Board. The Board approves appropriations for expenditures of endowment funds as part of the annual budget, or as needed.

THS's investment policy attempts to provide a predictable stream of funding for maintenance while seeking to maintain the purchasing power of the endowment assets. To satisfy its long-term rate-of-

return objectives, THS 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). THS targets a diversified asset allocation that places a greater emphasis on a blend of equity-based investments and fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

Endowment net asset composition at May 31, 2015:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds	\$ <u>0</u>	\$ <u>0</u>	\$ <u>1,092,444</u>	\$ <u>1,092,444</u>

Endowment net asset composition at May 31, 2014:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds	\$ <u>0</u>	\$ <u>0</u>	\$ <u>1,092,444</u>	\$ <u>1,092,444</u>

Changes in net assets of the endowment funds are as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, May 31, 2013	\$ <u>0</u>	\$ <u>0</u>	\$ <u>1,092,444</u>	\$ <u>1,092,444</u>
Investment return:				
Interest and dividends		30,025		30,025
Net realized and unrealized gain		92,070		92,070
Investment management fees		<u>(12,981)</u>		<u>(12,981)</u>
Net investment return		<u>109,114</u>		<u>109,114</u>
Appropriation for expenditure		<u>(109,114)</u>		<u>(109,114)</u>
Endowment net assets, May 31, 2014	<u>0</u>	<u>0</u>	<u>1,092,444</u>	<u>1,092,444</u>
Investment return:				
Interest and dividends		28,888		28,888
Net realized and unrealized loss		(2,964)		(2,964)
Investment management fees		<u>(10,857)</u>		<u>(10,857)</u>
Net investment return		<u>15,067</u>		<u>15,067</u>
Appropriation for expenditure		<u>(15,067)</u>		<u>(15,067)</u>
Endowment net assets, May 31, 2015	\$ <u>0</u>	\$ <u>0</u>	\$ <u>1,092,444</u>	\$ <u>1,092,444</u>

NOTE 9 – IN-KIND CONTRIBUTIONS AND CONDITIONAL CONTRIBUTIONS

During 2015 and 2014, THS recognized approximately \$268,000 and \$117,000, respectively, of contributed printing, advertising, educational services, and historic house utilities and maintenance. These amounts are recognized as contributions and primarily as program expenses in the accompanying statement of activities.

NOTE 10 – COMMITMENTS

During 2015, THS entered into a restoration contract for the Kellum-Noble property. At May 31, 2015, approximately \$191,000 of the contracted restoration work had not yet been completed.

NOTE 11 – RETIREMENT PLAN

THS maintains a §401(k) retirement savings plan for its employees. The plan allows eligible employees to contribute a portion of their earnings each plan year subject to certain Internal Revenue Service limitations and defer federal income taxes on the contributions. THS makes contributions to the plan for each employee equal to 3% of their salary. During 2015 and 2014, THS contributed \$13,504 and \$13,022, respectively, to the plan.

NOTE 12 – MANAGEMENT’S PLAN

In recent years, THS has experienced unrestricted deficits that have been financed primarily by Board-approved internal borrowing of THS’s temporarily restricted museum collection funds and appropriation of investment return of endowment funds. Management and the Board have implemented strategies to increase revenue, reduce expenses, and manage cash flows through a combination of renewing and expanding the donor base, increasing fees to better align with those of similar facilities in the Houston area, and renegotiating vendor contracts.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 9, 2015, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
