

The Heritage Society

Financial Statements
and Independent Accountants' Review Report
for the year ended May 31, 2013

Independent Accountants' Review Report

To the Board of Directors of
The Heritage Society:

We have reviewed the accompanying statement of financial position of The Heritage Society as of May 31, 2013 and the related statements of activities, of functional expenses, and of cash flows for the year 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.

The financial statements for the year ended May, 31, 2012 were audited by us, and we expressed an unqualified opinion on them in our report dated September 17, 2012, but we have not performed any auditing procedures since that date.

Blazek & Vetterling

September 11, 2013

The Heritage Society

Statements of Financial Position as of May 31, 2013 and 2012

	<u>REVIEWED</u>	<u>AUDITED</u>
	<u>2013</u>	<u>2012</u>
ASSETS		
Cash	\$ 22,605	\$ 6,606
Pledges receivable	343,307	21,441
Prepaid and other assets	14,536	12,394
Property and equipment, net (<i>Note 3</i>)	37,232	36,430
Investments (<i>Note 4</i>)	1,141,557	1,222,201
Collections (<i>Note 5</i>)	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 1,559,237</u>	<u>\$ 1,299,072</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 14,514	\$ 14,148
Deferred revenue	<u>15,563</u>	<u>9,700</u>
Total liabilities	<u>30,077</u>	<u>23,848</u>
Net assets (<i>Note 8</i>):		
Unrestricted	(113,456)	(39,622)
Temporarily restricted (<i>Note 7</i>)	550,172	222,402
Permanently restricted	<u>1,092,444</u>	<u>1,092,444</u>
Total net assets	<u>1,529,160</u>	<u>1,275,224</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,559,237</u>	<u>\$ 1,299,072</u>

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

The Heritage Society

Statement of Activities for the year ended May 31, 2013

	REVIEWED			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Contributions (<i>Note 9</i>)	\$ 300,742	\$ 471,004		\$ 771,746
Investment return, net (<i>Note 4</i>)	2,962	171,254		174,216
Admissions and tours	132,978			132,978
Fundraising events	49,145			49,145
Facility rental income	43,711			43,711
Other income	9,410			9,410
Total revenue	538,948	642,258		1,181,206
Net assets released from restrictions:				
Expenditures for program purposes	304,397	(304,397)		
Expiration of time restrictions	10,091	(10,091)		
Total	853,436	327,770		1,181,206
EXPENSES:				
Program services	671,593			671,593
Management and general	130,162			130,162
Fundraising	125,515			125,515
Total expenses	927,270			927,270
CHANGES IN NET ASSETS	(73,834)	327,770		253,936
Net assets, beginning of year	(39,622)	222,402	\$ 1,092,444	1,275,224
Net assets, end of year	\$ (113,456)	\$ 550,172	\$ 1,092,444	\$ 1,529,160

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

The Heritage Society

Statement of Activities for the year ended May 31, 2012

	AUDITED			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Contributions (<i>Note 9</i>)	\$ 257,892	\$ 161,496		\$ 419,388
Investment return, net (<i>Note 4</i>)	(10,593)	(64,443)		(75,036)
Admissions and tours	100,688			100,688
Fundraising events	80,489			80,489
Direct donor benefit costs	(10,499)			(10,499)
Facility rental income	50,185			50,185
Other income	8,849			8,849
Total revenue	477,011	97,053		574,064
Net assets released from restrictions:				
Expenditures for program purposes	391,795	(391,795)		
Total	868,806	(294,742)		574,064
EXPENSES:				
Program services	817,091			817,091
Management and general	136,829			136,829
Fundraising	71,901			71,901
Total expenses	1,025,821			1,025,821
Changes in net assets before disposal of collection items	(157,015)	(294,742)		(451,757)
Disposal of collection items		2,317		2,317
CHANGES IN NET ASSETS	(157,015)	(292,425)		(449,440)
Net assets, beginning of year	117,393	514,827	\$ 1,092,444	1,724,664
Net assets, end of year	\$ (39,622)	\$ 222,402	\$ 1,092,444	\$ 1,275,224

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

The Heritage Society

Statement of Functional Expenses for the year ended May 31, 2013

	REVIEWED			
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related taxes and benefits	\$ 461,213	\$ 73,926	\$ 70,596	\$ 605,735
Professional fees and contract services	33,695	19,915	42,000	95,610
Occupancy	39,503	5,000	5,000	49,503
Materials and supplies	37,809	781	451	39,041
Insurance	18,391	5,747		24,138
Historic home restoration and repair	20,344			20,344
Telephone and technology	15,721	1,406	1,450	18,577
Security	17,438			17,438
Bank and credit card fees		15,730		15,730
Depreciation	5,694	1,930	1,930	9,554
Printing and publications	5,769		2,301	8,070
Equipment rental and maintenance	5,670	567	568	6,805
Advertising and promotion	3,840			3,840
Postage and handling	2,342	250	1,219	3,811
Other	4,164	4,910		9,074
Total expenses	<u>\$ 671,593</u>	<u>\$ 130,162</u>	<u>\$ 125,515</u>	927,270
Custodial and investment advisory fees				<u>10,788</u>
Total				<u>\$ 938,058</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, 2012

	AUDITED			
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related taxes and benefits	\$ 501,808	\$ 83,635	\$ 57,901	\$ 643,344
Professional fees and contract services	44,050	24,650	863	69,563
Occupancy	43,104		2,000	45,104
Materials and supplies	42,605	1,788	3,119	47,512
Insurance	14,105	10,453		24,558
Historic home restoration and repair	92,656			92,656
Telephone and technology	20,129	1,843	1,450	23,422
Security	18,444			18,444
Bank and credit card fees		6,557		6,557
Depreciation	7,929	1,322	915	10,166
Printing and publications	7,711	201	590	8,502
Equipment rental and maintenance	11,931	459	459	12,849
Advertising and promotion	4,372			4,372
Postage and handling	4,833	1,280	389	6,502
Other	3,414	4,641	4,215	12,270
Total expenses	<u>\$ 817,091</u>	<u>\$ 136,829</u>	<u>\$ 71,901</u>	1,025,821
Direct donor benefit costs				10,499
Custodial and investment advisory fees				<u>11,474</u>
Total				<u>\$ 1,047,794</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, 2013 and 2012

	<u>REVIEWED</u>	<u>AUDITED</u>
	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 253,936	\$ (449,440)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Net realized and unrealized (gain) loss on investments	(152,837)	94,156
Depreciation	9,554	10,166
Changes in operating assets and liabilities:		
Pledges receivable	(321,866)	187,089
Prepaid and other assets	(2,142)	6,508
Accounts payable and accrued expenses	366	(55,771)
Deferred revenue	<u>5,863</u>	<u>(935)</u>
Net cash used by operating activities	<u>(207,126)</u>	<u>(208,227)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(988,507)	(207,817)
Proceeds from sales and maturities of investments	1,218,563	398,251
Net sale (purchase) of money market mutual funds	3,425	(38,910)
Purchases of property and equipment	<u>(10,356)</u>	<u>(10,522)</u>
Net cash provided by investing activities	<u>223,125</u>	<u>141,002</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on line of credit	152,300	20,000
Payments on line of credit	<u>(152,300)</u>	<u>(20,000)</u>
Net cash provided by financing activities	<u>0</u>	<u>0</u>
NET CHANGE IN CASH	15,999	(67,225)
Cash, beginning of year	<u>6,606</u>	<u>73,831</u>
Cash, end of year	<u><u>\$ 22,605</u></u>	<u><u>\$ 6,606</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, 2013 and 2012

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, 2010.

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 to estimate the present value of future cash flows. At May 31, 2013, all pledges receivable are due within one year.

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>2013</u>	<u>2012</u>
Gallery and exhibition fixtures	\$ 162,253	\$ 162,253
Furniture and equipment	<u>190,416</u>	<u>214,708</u>
Total property and equipment, at cost	352,669	376,961
Accumulated depreciation	<u>(315,437)</u>	<u>(340,531)</u>
Property and equipment, net	<u>\$ 37,232</u>	<u>\$ 36,430</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, 2013 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity securities				
Large-cap	\$ 197,924			\$ 197,924
Mid-cap	11,519			11,519
International developed	1,960			1,960
Equity mutual funds				
International developed	188,351			188,351
International emerging	98,610			98,610
Mid-cap	67,660			67,660
Small-cap	66,282			66,282
Fixed-income securities				
Mutual funds	147,964			147,964
Corporate bonds		\$ 98,128		98,128
Exchange-traded index funds	22,590			22,590
Global real estate index mutual fund	80,715			80,715
Exchange-traded commodity fund	80,375			80,375
Money market mutual funds	79,479			79,479
Total assets measured at fair value	<u>\$ 1,043,429</u>	<u>\$ 98,128</u>	<u>\$ 0</u>	<u>\$ 1,141,557</u>

Assets measured at fair value at May 31, 2012 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity securities				
Large-cap	\$ 479,814			\$ 479,814
Mid-cap	18,433			18,433
International developed	5,230			5,230
Equity mutual funds				
International developed	229,792			229,792
Mid-cap	61,145			61,145
Small-cap	59,867			59,867
Fixed-income mutual funds	271,947			271,947
Global real estate index mutual fund	13,066			13,066
Money market mutual funds	82,907			82,907
Total assets measured at fair value	<u>\$ 1,222,201</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,222,201</u>

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

- *Equity securities* and *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>2013</u>	<u>2012</u>
Interest and dividends	\$ 32,167	\$ 30,594
Net realized and unrealized gain (loss)	152,837	(94,156)
Custodial and investment advisory fees	<u>(10,788)</u>	<u>(11,474)</u>
Investment return, net	<u>\$ 174,216</u>	<u>\$ (75,036)</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 2013 and 2012, 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 June 1, 2014. Amounts outstanding under the line bear interest at the greater of the bank's prime rate plus 0.5% (5.5% at May 31, 2013) or 5.0%. At May 31, 2013 and 2012, no amount was outstanding.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Maintenance of historical structures	\$ 295,579	\$ 40,304
Time-restricted for future operations	143,707	10,091
Museum collections	110,886	110,875
Endowment earnings restricted to support maintenance of historical structures, grounds and collections	<u> </u>	<u>61,132</u>
Total temporarily restricted net assets	<u>\$ 550,172</u>	<u>\$ 222,402</u>

NOTE 8 – ENDOWMENT FUNDS

THS maintains an endowment fund which is 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 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.

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 an emphasis on a blend of equity-based investments and fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

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 net asset composition at May 31, 2013:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds	\$ 49,113	\$ 0	\$ 1,092,444	\$ 1,141,557

Endowment net asset composition at May 31, 2012:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds		\$ 61,132	\$ 1,092,444	\$ 1,153,576
Board-designated endowment funds	\$ 68,625			68,625
Endowment net assets	\$ 68,625	\$ 61,132	\$ 1,092,444	\$ 1,222,201

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, 2011	\$ 180,983	\$ 194,454	\$ 1,092,444	\$ 1,467,881
Investment return:				
Interest and dividends	4,072	26,409		30,481
Net realized and unrealized loss	(12,579)	(81,577)		(94,156)
Investment management fees	(1,533)	(9,941)		(11,474)
Net investment return	(10,040)	(65,109)		(75,149)
Appropriation for expenditure	(102,318)	(68,213)		(170,531)
Endowment net assets, May 31, 2012	68,625	61,132	1,092,444	1,222,201
Investment return:				
Interest and dividends	545	31,611		32,156
Net realized and unrealized gain	2,590	150,248		152,838
Investment management fees	(183)	(10,605)		(10,788)
Net investment return	2,952	171,254		174,206
Appropriation for expenditure	(22,464)	(232,386)		(254,850)
Endowment net assets, May 31, 2013	\$ 49,113	\$ 0	\$ 1,092,444	\$ 1,141,557

NOTE 9 – IN-KIND CONTRIBUTIONS AND CONDITIONAL CONTRIBUTIONS

During 2013 and 2012, THS recognized \$94,524 and \$94,068, 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.

THS received two conditional contributions during 2013 totaling \$95,000 for restoration of the 4th Ward Cottage conditioned upon THS incurring eligible costs. These conditional contributions have not been recognized as of May 31, 2013 but will be recognized when the conditions are substantially met.

NOTE 10 – 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 2013 and 2012, THS contributed approximately \$12,790 and \$7,400, respectively, to the plan.

NOTE 11 – MANAGEMENT’S PLAN

During 2013 and 2012, THS experienced unrestricted deficits that were financed primarily by board-approved internal borrowing of THS’s temporarily restricted museum collection funds and appropriation of investment return of endowment funds. During 2013, management and the Board began implementing 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, renegotiating vendor contracts, reducing employee work schedules, and curtailing some services.

NOTE 12 – CONTINGENCY

THS and an unrelated special event vendor have been named as defendants in a lawsuit involving personal injury of a historic home visitor on a city street. THS does not believe that it is responsible for any conditions that may have resulted in injury, has contested the suit vigorously, and has filed cross claims against the unrelated party and event coordinator for contribution and/or indemnification. THS is insured for such occurrences and its insurer has assumed defense of the lawsuit. THS does not believe resolution of this matter will have any material impact on its financial position.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 11, 2013, which is the date that the financial statements were available for issuance. 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.