

# **The Heritage Society**

Financial Statements  
and Independent Accountants' Review Report  
for the years ended May 31, 2014 and 2013

**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, 2014 and 2013 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.

*Blazek & Vetterling*

August 21, 2014

## The Heritage Society

### Statements of Financial Position as of May 31, 2014 and 2013

---

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 352,695	\$ 22,605
Pledges receivable	343,742	343,307
Prepaid and other assets	12,366	14,536
Property and equipment, net ( <i>Note 3</i> )	45,177	37,232
Investments ( <i>Note 4</i> )	1,185,219	1,141,557
Collections ( <i>Note 5</i> )	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 1,939,199</u>	<u>\$ 1,559,237</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 12,168	\$ 14,514
Deferred revenue	25,813	15,563
Line of credit ( <i>Note 6</i> )	<u>87,000</u>	<u>          </u>
Total liabilities	<u>124,981</u>	<u>30,077</u>
Net assets ( <i>Note 8</i> ):		
Unrestricted ( <i>Note 11</i> )	(71,025)	(113,456)
Temporarily restricted ( <i>Note 7</i> )	792,799	550,172
Permanently restricted	<u>1,092,444</u>	<u>1,092,444</u>
Total net assets	<u>1,814,218</u>	<u>1,529,160</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,939,199</u>	<u>\$ 1,559,237</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>
<b>REVENUE:</b>				
Contributions ( <i>Note 9</i> )	\$ 424,769	\$ 561,789		\$ 986,558
Investment return, net ( <i>Note 4</i> )		109,114		109,114
Admissions and tours	97,839			97,839
Fundraising events	65,375			65,375
Direct donor benefit costs	(3,327)			(3,327)
Facility rental income	60,553			60,553
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>
<b>EXPENSES:</b>				
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 Activities for the year ended May 31, 2013

---

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions ( <i>Note 9</i> )	\$ 349,887	\$ 471,004		\$ 820,891
Investment return, net ( <i>Note 4</i> )	2,962	171,254		174,216
Admissions and tours	132,978			132,978
Facility rental income	43,711			43,711
Other income	<u>9,410</u>	<u>          </u>		<u>9,410</u>
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	<u>10,091</u>	<u>(10,091)</u>		<u>          </u>
Total	<u>853,436</u>	<u>327,770</u>		<u>1,181,206</u>
EXPENSES:				
Program services	671,593			671,593
Management and general	130,162			130,162
Fundraising	<u>125,515</u>			<u>125,515</u>
Total expenses	<u>927,270</u>			<u>927,270</u>
CHANGES IN NET ASSETS	(73,834)	327,770		253,936
Net assets, beginning of year	<u>(39,622)</u>	<u>222,402</u>	<u>\$ 1,092,444</u>	<u>1,275,224</u>
Net assets, end of year	<u>\$ (113,456)</u>	<u>\$ 550,172</u>	<u>\$ 1,092,444</u>	<u>\$ 1,529,160</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
Professional fees and contract services	38,781	18,414	51,557	108,752
Occupancy	59,952	4,700	4,700	69,352
Materials and supplies	24,321	1,062	7,044	32,427
Insurance	18,983	6,169		25,152
Telephone and technology	15,809	1,257	1,217	18,283
Depreciation	10,005	3,335	3,335	16,675
Bank and credit card fees		6,930	330	7,260
Printing and publications	5,100	64	1,686	6,850
Equipment rental and maintenance	5,866	482	482	6,830
Postage and handling	2,700	51	1,781	4,532
Advertising and promotion	2,750			2,750
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
Custodial and investment advisory fees				12,981
Direct donor benefit costs				<u>3,327</u>
Total				<u>\$ 1,054,035</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, 2013

---

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related taxes and benefits	\$ 461,213	\$ 73,926	\$ 70,596	\$ 605,735
Historic home restoration and repair	20,344			20,344
Professional fees and contract services	33,695	28,914	42,000	104,609
Occupancy	56,941	5,000	5,000	66,941
Materials and supplies	37,809	781	451	39,041
Insurance	18,391	5,747		24,138
Telephone and technology	15,721	1,406	1,450	18,577
Depreciation	5,694	1,930	1,930	9,554
Bank and credit card fees		6,731		6,731
Printing and publications	5,769		2,301	8,070
Equipment rental and maintenance	5,670	567	568	6,805
Postage and handling	2,342	250	1,219	3,811
Advertising and promotion	3,840			3,840
Other	<u>4,164</u>	<u>4,910</u>	<u></u>	<u>9,074</u>
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

## Statements of Cash Flows for the years ended May 31, 2014 and 2013

---

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 285,058	\$ 253,936
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized gain on investments	(92,070)	(152,837)
Depreciation	16,675	9,554
Changes in operating assets and liabilities:		
Pledges receivable	(435)	(321,866)
Prepaid and other assets	2,170	(2,142)
Accounts payable and accrued expenses	(2,346)	366
Deferred revenue	<u>10,250</u>	<u>5,863</u>
Net cash provided (used) by operating activities	<u>219,302</u>	<u>(207,126)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(30,200)	(988,507)
Proceeds from sales and maturities of investments	312,191	1,218,563
Net sale (purchase) of money market mutual funds	(233,583)	3,425
Purchases of property and equipment	<u>(24,620)</u>	<u>(10,356)</u>
Net cash provided by investing activities	<u>23,788</u>	<u>223,125</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Advances on line of credit	209,000	152,300
Payments on line of credit	<u>(122,000)</u>	<u>(152,300)</u>
Net cash provided by financing activities	<u>87,000</u>	<u>0</u>
<b>NET CHANGE IN CASH</b>	<b>330,090</b>	<b>15,999</b>
Cash, beginning of year	<u>22,605</u>	<u>6,606</u>
Cash, end of year	<u><u>\$ 352,695</u></u>	<u><u>\$ 22,605</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, 2014 and 2013

---

## 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, 2011.

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, 2014, pledges receivable of \$328,742 are due in 2015 and pledges receivable of \$15,000 are due in 2016 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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

## **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>2014</u>	<u>2013</u>
Gallery and exhibition fixtures	\$ 162,253	\$ 162,253
Furniture and equipment	<u>215,036</u>	<u>190,416</u>
Total property and equipment, at cost	377,289	352,669
Accumulated depreciation	<u>(332,112)</u>	<u>(315,437)</u>
Property and equipment, net	<u>\$ 45,177</u>	<u>\$ 37,232</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, 2014 are as follows:

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

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

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

- *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.
- *Exchange-traded funds* and *equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.

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>2014</u>	<u>2013</u>
Interest and dividends	\$ 30,025	\$ 32,167
Net realized and unrealized gain	92,070	152,837
Custodial and investment advisory fees	<u>(12,981)</u>	<u>(10,788)</u>
Investment return, net	<u>\$ 109,114</u>	<u>\$ 174,216</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 2014 and 2013, 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, 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, 2014) or 5.0%.

## NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Maintenance of historical structures	\$ 597,938	\$ 295,579
Museum collections	110,886	110,886
Time-restricted for future operations	77,375	143,707
Other	<u>6,600</u>	<u></u>
Total temporarily restricted net assets	<u>\$ 792,799</u>	<u>\$ 550,172</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.

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.

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, 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>

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	\$ <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, 2012	\$ <u>68,625</u>	\$ <u>61,132</u>	\$ <u>1,092,444</u>	\$ <u>1,222,201</u>
Investment return:				
Interest and dividends	545	31,611		32,156
Net realized and unrealized gain	2,590	150,248		152,838
Investment management fees	<u>(183)</u>	<u>(10,605)</u>		<u>(10,788)</u>
Net investment return	<u>2,952</u>	<u>171,254</u>		<u>174,206</u>
Appropriation for expenditure	<u>(71,577)</u>	<u>(232,386)</u>		<u>(303,963)</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>

## **NOTE 9 – IN-KIND CONTRIBUTIONS AND CONDITIONAL CONTRIBUTIONS**

During 2014 and 2013, THS recognized \$116,736 and \$94,524, 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 – 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 2014 and 2013, THS contributed \$13,022 and \$12,790, respectively, to the plan.

## **NOTE 11 – 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. Although unrestricted net assets continue to be in a deficit position at May 31, 2014, positive changes in net assets during 2014 lowered the deficit by \$42,431.

## **NOTE 12 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 21, 2014, 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.

---