

# **The Heritage Society**

Financial Statements  
and Independent Auditors' Report  
for the year ended May 31, 2016

# The Heritage Society

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**Independent Auditors' Report**

To the Board of Directors of  
The Heritage Society:

We have audited the accompanying financial statements of The Heritage Society, which comprise the statement of financial position as of May 31, 2016 and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements** – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility** – Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion** – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Heritage Society as of May 31, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Financial Statements for the Year Ended May 31, 2015** – The financial statements for the year ended May 31, 2015 were reviewed by us, and our report thereon, dated September 9, 2015, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

*Blazek & Vetterling*

August 25, 2016

## The Heritage Society

### Statements of Financial Position as of May 31, 2016 and 2015

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	AUDITED <u>2016</u>	REVIEWED <u>2015</u>
ASSETS		
Cash	\$ 589,819	\$ 366,115
Pledges receivable	67,330	295,652
Prepaid and other assets	13,225	11,756
Property and equipment, net ( <i>Note 3</i> )	24,529	32,997
Investments ( <i>Note 4</i> )	912,459	1,138,180
Collections ( <i>Note 5</i> )	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 1,607,362</u>	<u>\$ 1,844,700</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 89,870	\$ 91,414
Deferred revenue	23,575	7,825
Line of credit ( <i>Note 6</i> )	<u>197,500</u>	<u>98,000</u>
Total liabilities	<u>310,945</u>	<u>197,239</u>
Commitments ( <i>Note 10</i> )		
Net assets ( <i>Note 8</i> ):		
Unrestricted ( <i>Note 12</i> )	(464,439)	(83,626)
Temporarily restricted ( <i>Note 7</i> )	668,412	638,643
Permanently restricted	<u>1,092,444</u>	<u>1,092,444</u>
Total net assets	<u>1,296,417</u>	<u>1,647,461</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,607,362</u>	<u>\$ 1,844,700</u>

See accompanying notes to financial statements.

## The Heritage Society

### Statement of Activities for the year ended May 31, 2016 (Audited)

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions ( <i>Note 9</i> )	\$ 458,636	\$ 330,837		\$ 789,473
Fundraising events	20,138			20,138
Admissions and tours	90,479			90,479
Facility rental income	32,713			32,713
Investment return, net ( <i>Note 4</i> )	(42,092)			(42,092)
Other income	<u>7,785</u>	<u></u>		<u>7,785</u>
Total revenue	567,659	330,837		898,496
Net assets released from restrictions:				
Expenditures for program purposes	272,318	(272,318)		
Expiration of time restrictions	<u>28,750</u>	<u>(28,750)</u>		<u></u>
Total	<u>868,727</u>	<u>29,769</u>		<u>898,496</u>
EXPENSES:				
Program services	1,055,664			1,055,664
Management and general	137,804			137,804
Fundraising	<u>56,072</u>			<u>56,072</u>
Total expenses	<u>1,249,540</u>			<u>1,249,540</u>
CHANGES IN NET ASSETS	(380,813)	29,769		(351,044)
Net assets, beginning of year	<u>(83,626)</u>	<u>638,643</u>	<u>\$ 1,092,444</u>	<u>1,647,461</u>
Net assets, end of year	<u>\$ (464,439)</u>	<u>\$ 668,412</u>	<u>\$ 1,092,444</u>	<u>\$ 1,296,417</u>

See accompanying notes to financial statements.

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# The Heritage Society

## Statement of Activities for the year ended May 31, 2015 (Reviewed)

	<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.

## The Heritage Society

### Statement of Functional Expenses for the year ended May 31, 2016 (Audited)

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	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related taxes and benefits	\$ 540,782	\$ 84,058	\$ 37,769	\$ 662,609
Historic home restoration and repair	212,804			212,804
Equipment rental and maintenance	121,249	602	602	122,453
Occupancy	57,887	4,629	4,548	67,064
Professional fees and contract services	26,103	23,609	1,620	51,332
Insurance	18,799	6,176		24,975
Materials and supplies	20,054	954	1,567	22,575
Telephone and technology	19,762	1,080	1,650	22,492
Event catering	13,953	716	122	14,791
Interest, bank and credit card fees		13,209		13,209
Depreciation	8,514	1,139	935	10,588
Printing and publications	4,142		3,500	7,642
Advertising and promotion	5,508			5,508
Postage and handling	2,446	95	2,636	5,177
Other	<u>3,661</u>	<u>1,537</u>	<u>1,123</u>	<u>6,321</u>
Total expenses	<u>\$ 1,055,664</u>	<u>\$ 137,804</u>	<u>\$ 56,072</u>	1,249,540
Custodial and investment advisory fees				<u>10,708</u>
Total				<u>\$ 1,260,248</u>

*See accompanying notes to financial statements.*

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## The Heritage Society

### Statement of Functional Expenses for the year ended May 31, 2015 (Reviewed)

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	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
Occupancy	65,266	4,770	4,770	74,806
Professional fees and contract services	54,799	26,592	54,410	135,801
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
Interest, bank and credit card fees	64	9,282		9,346
Depreciation	7,309	2,436	2,435	12,180
Printing and publications	7,543	339	1,923	9,805
Advertising and promotion	2,540		7,870	10,410
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.*

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## The Heritage Society

### Statements of Cash Flows for the years ended May 31, 2016 and 2015

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	AUDITED <u>2016</u>	REVIEWED <u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (351,044)	\$ (166,757)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Net realized and unrealized loss on investments	56,947	2,964
Depreciation	10,588	12,180
Changes in operating assets and liabilities:		
Pledges receivable	228,322	48,090
Prepaid and other assets	(1,469)	610
Accounts payable and accrued expenses	(1,544)	79,246
Deferred revenue	<u>15,750</u>	<u>(17,988)</u>
Net cash used by operating activities	<u>(42,450)</u>	<u>(41,655)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(618,599)	(820,958)
Proceeds from sales and maturities of investments	765,460	605,419
Net sale of money market mutual funds	21,913	259,614
Purchases of property and equipment	<u>(2,120)</u>	<u></u>
Net cash provided by investing activities	<u>166,654</u>	<u>44,075</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on line of credit	137,000	126,000
Payments on line of credit	<u>(37,500)</u>	<u>(115,000)</u>
Net cash provided by financing activities	<u>99,500</u>	<u>11,000</u>
NET CHANGE IN CASH	223,704	13,420
Cash, beginning of year	<u>366,115</u>	<u>352,695</u>
Cash, end of year	<u>\$ 589,819</u>	<u>\$ 366,115</u>

*See accompanying notes to financial statements.*

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## The Heritage Society

Notes to Financial Statements for the years ended May 31, 2016 (Audited) and 2015 (Reviewed)

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### 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).

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, 2016, pledges receivable of \$62,330 are due in 2017 and pledges receivable of \$5,000 are due in 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>2016</u>	<u>2015</u>
Gallery and exhibition fixtures	\$ 162,253	\$ 162,253
Furniture and equipment	<u>217,156</u>	<u>215,036</u>
Total property and equipment, at cost	379,409	377,289
Accumulated depreciation	<u>(354,880)</u>	<u>(344,292)</u>
Property and equipment, net	<u>\$ 24,529</u>	<u>\$ 32,997</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, 2016 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	\$ 261,075			\$ 261,075
International developed:				
Mutual funds	144,963			144,963
Exchange-traded funds	47,872			47,872
Small-cap mutual funds	85,603			85,603
Mid-cap exchange-traded funds	51,027			51,027
Fixed-income securities:				
Corporate and other bonds		\$ 238,187		238,187
Global real estate index mutual fund	52,197			52,197
Money market mutual funds	31,535			31,535
Total assets measured at fair value	<u>\$ 674,272</u>	<u>\$ 238,187</u>	<u>\$ 0</u>	<u>\$ 912,459</u>

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:				
Mutual funds	78,505			78,505
Exchange-traded funds	144,609			144,609
Small-cap mutual funds	37,793			37,793
Mid-cap exchange-traded funds	55,642			55,642
International emerging mutual funds	68,166			68,166
Fixed-income securities:				
Corporate and other bonds		\$ 275,556		275,556
Global real estate index mutual fund	48,441			48,441
Money market mutual funds	53,448			53,448
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>

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>2016</u>	<u>2015</u>
Interest and dividends	\$ 25,563	\$ 28,888
Net realized and unrealized loss on investments	(56,947)	(2,964)
Custodial and investment advisory fees	<u>(10,708)</u>	<u>(10,857)</u>
Investment return, net	<u>\$ (42,092)</u>	<u>\$ 15,067</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 2016 and 2015, 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 \$200,000 unsecured line of credit with a bank which matures on November 30, 2016. Amounts outstanding under the line bear interest at prime rate plus 2.0% (5.5% at May 31, 2016). Interest expense recognized and paid was approximately \$7,200 in 2016 and \$4,000 in 2015.

## NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Maintenance of historical structures	\$ 534,813	\$ 491,507
Museum collections	110,886	110,886
Time-restricted for future operations	5,000	28,750
Other	<u>17,713</u>	<u>7,500</u>
Total temporarily restricted net assets	<u>\$ 668,412</u>	<u>\$ 638,643</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. 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. 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 of Directors (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.

The fair value of investments associated with individual donor-restricted endowment funds, at times, may fall below donor-stipulated or TUPMIFA-required levels. Such deficiencies result from unfavorable market fluctuations and/or continued appropriations deemed prudent by the Board. At May 31, 2016, such deficiencies were \$42,092 and are reflected as a reduction of unrestricted net assets.

Endowment net asset composition at May 31, 2016:

	<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, 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>

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, 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>
Investment return:				
Interest and dividends	25,563			25,563
Net realized and unrealized loss	(56,947)			(56,947)
Investment management fees	<u>(10,708)</u>			<u>(10,708)</u>
Net investment return	<u>(42,092)</u>			<u>(42,092)</u>
Endowment net assets, May 31, 2016	\$ <u>(42,092)</u>	\$ <u>0</u>	\$ <u>1,092,444</u>	\$ <u>1,050,352</u>

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

During 2016 and 2015, THS recognized approximately \$161,000 and \$268,000, 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, 2016, approximately \$42,300 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 2016 and 2015, THS contributed \$13,697 and \$13,504, respectively, to the plan.

## NOTE 12 – UNRESTRICTED NET ASSETS AND MANAGEMENT'S PLAN

Unrestricted net assets are as follows:

	<u>2016</u>	<u>2015</u>
Cumulative unrestricted deficits	\$ (422,347)	\$ (83,626)
Aggregate deficiency of endowment investments	<u>(42,092)</u>	<u>                    </u>
Unrestricted net asset deficit	<u>\$ (464,439)</u>	<u>\$ (83,626)</u>

During 2016, endowment investments experienced negative net return of \$42,092 because of realized and unrealized losses. This deficiency is reflected as a reduction of unrestricted net assets.

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. THS is currently negotiating with an NFP for a business combination that is expected to result in new revenue from the sale of existing and developing videos and other educational materials on the region.

## NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 25, 2016, 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.