

**TEXAS STATE HISTORICAL ASSOCIATION**

**FINANCIAL STATEMENTS**

**Years ended August 31, 2014 and 2013  
with Report of Independent Auditors**

**TEXAS STATE HISTORICAL ASSOCIATION**

**FINANCIAL STATEMENTS**

**Years Ended August 31, 2014 and 2013**

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of the  
Texas State Historical Association

We have audited the accompanying financial statements of Texas State Historical Association, which comprise the statements of financial position as of August 31, 2014 and 2013, and the related statements of activities, and cash flows for the years 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 ("GAAP"); 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's 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 Texas State Historical Association as of August 31, 2014 and 2013, and the results of its activities and its cash flows for the years then ended in conformity with GAAP.



Dallas, Texas  
January 26, 2015

**TEXAS STATE HISTORICAL ASSOCIATION**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>August 31,</b>	
	<b>2014</b>	<b>2013</b>
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Cash and cash equivalents	\$ 33,237	\$ 117,993
Investments	739,129	290,062
Receivables	72,376	62,832
Grant receivables, net	1,570,185	1,064,050
Pledges receivable	182,076	161,013
Inventory	105,695	110,008
Prepaid expenses and other assets	11,930	12,775
Fixed assets, net	1,793	2,849
Endowment investments	2,609,109	2,288,477
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 5,325,530</u>	<u>\$ 4,110,059</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 90,476	\$ 106,142
Line of credit	350,000	-
Total liabilities	<u>440,476</u>	<u>106,142</u>
Net assets (deficiency):		
Unrestricted	(367,269)	(439,198)
Temporarily restricted	1,417,745	909,186
Permanently restricted	3,834,578	3,533,929
Total net assets	<u>4,885,054</u>	<u>4,003,917</u>
Total liabilities and net assets	<u>\$ 5,325,530</u>	<u>\$ 4,110,059</u>

See accompanying notes to financial statements.

**TEXAS STATE HISTORICAL ASSOCIATION**

**STATEMENT OF ACTIVITIES**

**Year ended August 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains, and other support:				
Publications and other sales	\$ 307,614	\$ -	\$ -	\$ 307,614
Investment income	262,419	255,976	649	519,044
Contributions and grants	260,837	745,300	750,000	1,756,137
Association activities	132,805	-	-	132,805
Membership fees	216,204	-	-	216,204
Educational activities	58,074	-	-	58,074
Contributed facilities and services	137,789	-	-	137,789
Philosophical society	73,153	-	-	73,153
Awards	15,900	-	-	15,900
Other income	106,135	-	-	106,135
Permanently restricted funds released by donor	-	450,000	(450,000)	-
Net assets released from donor and program restrictions	942,717	(942,717)	-	-
Total revenue, gains, and other support	<u>2,513,647</u>	<u>508,559</u>	<u>300,649</u>	<u>3,322,855</u>
Expenses:				
Program services:				
Digital gateway	133,728	-	-	133,728
Handbook production	117,685	-	-	117,685
Publications	163,523	-	-	163,523
Southwest historical quarterly	71,259	-	-	71,259
Educational activities	551,519	-	-	551,519
Association activities	535,717	-	-	535,717
Awards	35,196	-	-	35,196
Texas Almanac	242,169	-	-	242,169
Total program services	<u>1,850,796</u>	<u>-</u>	<u>-</u>	<u>1,850,796</u>
Fundraising	256,360	-	-	256,360
General and administrative	334,562	-	-	334,562
Total expenses	<u>2,441,718</u>	<u>-</u>	<u>-</u>	<u>2,441,718</u>
Changes in net assets	<u>71,929</u>	<u>508,559</u>	<u>300,649</u>	<u>881,137</u>
Net assets (deficiency) at beginning of year	<u>(439,198)</u>	<u>909,186</u>	<u>3,533,929</u>	<u>4,003,917</u>
Net assets (deficiency) at end of year	<u>\$ (367,269)</u>	<u>\$ 1,417,745</u>	<u>\$ 3,834,578</u>	<u>\$ 4,885,054</u>

See accompanying notes to financial statements.

**TEXAS STATE HISTORICAL ASSOCIATION**

**STATEMENT OF ACTIVITIES**

**Year ended August 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains, and other support:				
Publications and other sales	\$ 260,705	\$ -	\$ -	\$ 260,705
Investment income	136,690	164,674	638	302,002
Contributions and grants	446,409	231,875	-	678,284
Association activities	160,663	-	-	160,663
Membership fees	132,757	-	-	132,757
Educational activities	56,316	-	-	56,316
Contributed facilities and services	137,789	-	-	137,789
Philosophical society	38,981	-	-	38,981
Awards	6,350	-	-	6,350
Other income	59,673	-	-	59,673
Net assets released from donor and program restrictions	288,148	(288,148)	-	-
Total revenue, gains, and other support	<u>1,724,481</u>	<u>108,401</u>	<u>638</u>	<u>1,833,520</u>
Expenses:				
Program services:				
Digital gateway	89,217	-	-	89,217
Handbook production	101,232	-	-	101,232
Publications	264,715	-	-	264,715
Southwest historical quarterly	96,879	-	-	96,879
Educational activities	457,015	-	-	457,015
Association activities	387,617	-	-	387,617
Awards	35,310	-	-	35,310
Texas Almanac	159,223	-	-	159,223
Total program services	<u>1,591,208</u>	<u>-</u>	<u>-</u>	<u>1,591,208</u>
Fundraising	283,183	-	-	283,183
General and administrative	233,679	-	-	233,679
Total expenses	<u>2,108,070</u>	<u>-</u>	<u>-</u>	<u>2,108,070</u>
Changes in net assets	(383,589)	108,401	638	(274,550)
Net assets (deficiency) at beginning of year	<u>(55,609)</u>	<u>800,785</u>	<u>3,533,291</u>	<u>4,278,467</u>
Net assets (deficiency) at end of year	<u>\$ (439,198)</u>	<u>\$ 909,186</u>	<u>\$ 3,533,929</u>	<u>\$ 4,003,917</u>

See accompanying notes to financial statements.

**TEXAS STATE HISTORICAL ASSOCIATION**

**STATEMENTS OF CASH FLOWS**

	<b>Year Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
	<u>          </u>	<u>          </u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 881,137	\$ (274,550)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,681	3,416
Discount on grant receivable	(8,588)	(8,589)
Net realized and unrealized gains on investments	(506,300)	(245,627)
Bad debts	-	220
Changes in assets and liabilities:		
Receivables	(9,544)	2,295
Grant receivables	(877,547)	(30,000)
Pledges receivable	(21,063)	(159,213)
Inventory	4,313	92,876
Prepaid expenses and other assets	845	6,557
Accounts payable and accrued liabilities	(15,666)	21,863
Net cash used in operating activities	<u>(550,732)</u>	<u>(590,752)</u>
 <b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(625)	-
Proceeds from sales of investments	1,465,231	2,587,380
Purchases of investments	(1,728,630)	(2,432,134)
Net cash provided by (used in) investing activities	<u>(264,024)</u>	<u>155,246</u>
 <b>Cash flows from financing activities:</b>		
Permanently restricted collections of grant receivables	380,000	500,000
Proceeds from line of credit	350,000	-
Net cash provided by financing activities	<u>730,000</u>	<u>500,000</u>
 Net increase (decrease) in cash and cash equivalents	(84,756)	64,494
 Cash and cash equivalents at beginning of year	<u>117,993</u>	<u>53,499</u>
 Cash and cash equivalents at end year	<u>\$ 33,237</u>	<u>\$ 117,993</u>
 <b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

# TEXAS STATE HISTORICAL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

August 31, 2014 and 2013

### A. Nature of Activities

The Texas State Historical Association (the "Association") was organized in 1897 as a Texas non-profit corporation. The primary mission of the Association is to foster appreciation, understanding, and teaching of the rich and unique history of Texas, through programs and activities to encourage and promote research, preservation, and publication of historical material affecting the State of Texas.

The Association is located on the campus of the University of North Texas (the "University"), in Denton, Texas and receives contributed services and facilities from the University as part of a hosting agreement. The agreement was entered into in fiscal year 2009, when the Association relocated from the campus of the University of Texas in Austin, Texas.

### B. Summary of Significant Accounting Policies

A summary of the Association's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

#### Basis of Accounting

The accounts are maintained and the financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Deposits in financial institutions may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Association has not experienced any losses related to amounts in excess of FDIC limits.

#### Investments

The Association follows the provisions of Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 958-320 and ASC 958-325, which requires investments with readily determinable fair values to be stated at fair value with realized and unrealized gains and losses included in the statements of activities.



## TEXAS STATE HISTORICAL ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS *(continued)*

#### **B. Summary of Significant Accounting Policies – continued**

##### **Inventory**

Inventory includes various publications and books. Inventory is accounted for under the first-in, first-out (“FIFO”) method and carried at the lower of cost or market value.

##### **Fixed Assets**

Fixed assets are recorded at cost or at estimated fair value at the date of donation. The Association follows the practice of capitalizing all expenditures for equipment in excess of \$500. Depreciation is expensed using the straight-line method over the five to seven year estimated useful lives of the assets.

##### **Net Assets**

The Association presents its financial statements in accordance with FASB ASC 958-205. Under FASB ASC 958-205, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Association is required to present a statement of cash flows.

Unrestricted net assets are available for general use by the Association.

Temporarily restricted net assets consist of pledges receivable and investments. These assets are restricted as to use and, where applicable, are transferred from temporarily restricted net assets to unrestricted net assets when expended. There are no time restrictions on these assets.

Permanently restricted net assets consist of endowment investments and require that the principal be invested in perpetuity. Generally, the donor of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes.

##### **Functional Allocation of Expenses**

The cost of providing the Association’s various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

##### **Contributions and Grants**

The Association accounts for contributions in accordance with FASB ASC 958-605. In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Under FASB ASC 958-605, time-restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

## TEXAS STATE HISTORICAL ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS *(continued)*

#### **B. Summary of Significant Accounting Policies – continued**

##### **Contributions and Grants – continued**

Contributions, grants, and pledges are recorded as revenue and receivables in the year made. Contributions and pledges include amounts from trustees and officers of the Association.

Unrestricted contributions are recorded as an increase in unrestricted net assets when received or pledged. Changes in the allowance to adjust pledge receivables to net present value are included in unrestricted contributions. Management has determined that no allowance is necessary as of August 31, 2014 or 2013. Donor-restricted contributions received with stipulations that limit the use of the donated assets are initially reflected as additions to temporarily restricted net assets. When expenditures are made which meet the donor-specified purpose, they are presented as net assets released from restrictions in the accompanying statements of activities. Contributions by donors requiring the principal to remain intact are recorded as permanently restricted net assets.

##### **Publications and Other Sales**

Revenue from the sale of publications or other products is recognized when the product is shipped or received by the customer, based on the shipping terms.

##### **Membership Fees**

Membership fees are treated as contributions and are recorded as income in the year in which the fees are received.

##### **Contributed Facilities and Services**

The Association may receive contributed services for such activities as advertising, fund raising, and legal consultation, including services provided by trustees and officers of the Association. These contributions are recognized as income and expense in the accompanying statements of activities and are recorded at fair value when received.

Contributed facilities are provided on a month-to-month basis by the University of North Texas (the “University”) and amounted to \$76,789 for both years ended August 31, 2014 and 2013. Contributed personnel costs recorded for the years ended August 31, 2014 and 2013, amounted to \$61,000 for each year. Contributed services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Total professional services and goods, including the value of services donated by the University, amounted to \$137,789 for both years ended August 31, 2014 and 2013.

##### **Association Activities**

Revenues from association activities are recognized as services are performed.

**TEXAS STATE HISTORICAL ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Expenses for Digital Gateway**

All costs incurred under the Digital Gateway to Texas History Program are expensed as incurred. As such, no items were capitalized under this program.

**C. Investments**

Investments are presented in the financial statements in the aggregate at fair value as determined by their quoted market prices.

Investments are comprised of the following as of August 31:

	<u>2014</u>	<u>2013</u>
Equity securities	\$ 3,348,238	\$ 2,578,539
Total investments	<u>\$ 3,348,238</u>	<u>\$ 2,578,539</u>
Investments	\$ 739,129	\$ 290,062
Endowments	<u>2,609,109</u>	<u>2,288,477</u>
Total investments	<u>\$ 3,348,238</u>	<u>\$ 2,578,539</u>

Investment income includes the following for the years ended August 31:

	<u>2014</u>	<u>2013</u>
Investment earnings	\$ 12,744	\$ 56,375
Net realized and unrealized gains	<u>506,300</u>	<u>245,627</u>
Total investment income	<u>\$ 519,044</u>	<u>\$ 302,002</u>

Investment expenses offsetting investment earnings in the statements of activities were approximately \$17,000 and \$21,000 for the years ended August 31, 2014 and 2013, respectively.

**D. Receivables**

Trade receivables were \$72,376 and \$62,832 as of August 31, 2014 and 2013, respectively. There was no allowance for doubtful accounts as of August 31, 2014 and 2013. There was no bad debt expense for the year ended August 31, 2014 and 2013.

**TEXAS STATE HISTORICAL ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**E. Pledges Receivable**

Pledges receivable consist of the following as of August 31:

	<b>2014</b>	<b>2013</b>
Amounts due in:		
Less than one year	\$ 109,800	\$ 117,300
One to five years	72,276	43,713
	\$ 182,076	\$ 161,013

**F. Grants Receivable**

Grants receivables are due as follows at August 31, 2014:

Less than 1 year	\$ 640,000
1-5 years	940,000
Total grants receivable	1,580,000
Unamortized discount to adjust to net present value	(9,815)
Net grants receivable	\$ 1,570,185

The discount rate used by the Association to calculate the present value of the grants receivable at August 31, 2014 and 2013, was 1.25%.

In May 2012 the Association and the Summerlee Foundation (“Summerlee”) entered into a grant agreement whereby Summerlee agreed to grant \$1,500,000 to the Association over five years for a permanent education endowment fund and another \$500,000 conditional matching grant to be used \$200,000 for digital membership development and \$300,000 for general operating expenses. The Association received \$500,000 from Summerlee in the fiscal year ended August 31, 2012. The Association received the conditional matching grant of \$500,000 from Summerlee in the fiscal year ended August 31, 2013. The Association received \$350,000 from Summerlee in the fiscal year ended August 31, 2014, and has recorded a grant receivable from Summerlee for \$650,000. The Association has had a long-term relationship with Summerlee and a member of Summerlee’s board of directors is also a member of the Association.

**TEXAS STATE HISTORICAL ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**G. Fair Value Measurements and Disclosures**

ASC 820-10 defines fair value as 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 and establishes a three-tier hierarchy that is used to identify assets and liabilities measured at fair value. The hierarchy focuses on the inputs used to measure fair value and requires that the lowest level input be used. The three levels defined in ASC 820-10 are as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

All of the Association’s investments are classified within Level 1.

**H. Fixed Assets**

Fixed assets consisted of the following as of August 31:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 28,316	\$ 40,323
Less accumulated depreciation	<u>(26,523)</u>	<u>(37,474)</u>
	<u>\$ 1,793</u>	<u>\$ 2,849</u>

**I. Line of Credit**

In August 2014 the Association entered into a \$600,000 line of credit agreement with a financial institution and had \$350,000 outstanding at year end. The line of credit bears interest at the Northern Trust Company Prime Rate, which is a variable index rate. The rate at which interest was accrued for the year was 2.250%. The line of credit expires in August 2016.

**TEXAS STATE HISTORICAL ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**J. Net Assets**

The Association had a deficit in unrestricted net assets of approximately \$367,000 and \$439,000 as of August 31, 2014 and 2013, respectively, which it intends to fund through revenues, gains, and other support in the subsequent fiscal years.

Temporarily restricted net assets are designated as follows:

	<b>August 31,</b>	
	<b>2014</b>	<b>2013</b>
	<u>          </u>	<u>          </u>
Awards	\$ 318,788	\$ 284,170
Educational Activities	460,023	202,292
Handbook of Texas	118,765	-
Publications	216,581	170,767
Digital Gateway	201,312	178,904
Academic Research Program Activities	72,386	73,053
Directorship	<u>29,890</u>	<u>-</u>
Temporarily restricted net assets	<u>\$ 1,417,745</u>	<u>\$ 909,186</u>

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support the following:

	<b>August 31,</b>	
	<b>2014</b>	<b>2013</b>
	<u>          </u>	<u>          </u>
Awards	\$ 260,734	\$ 260,726
Educational Activities	855,669	105,669
Handbook of Texas	100,000	400,000
Publications	292,714	292,073
Directorship	<u>2,325,461</u>	<u>2,475,461</u>
Permanently restricted net assets	<u>\$ 3,834,578</u>	<u>\$ 3,533,929</u>

The Fred Ryder Cotten Popular History Publications Fund, included in Publications above, requires 5% of investment income to be reinvested in the endowment each year with the remaining 95% available to support activities in temporarily restricted net assets.

**TEXAS STATE HISTORICAL ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**K. Concentrations**

The Association received approximately 75% and 74% of its publications revenue from one distributor of its books for the years ended August 31, 2014 and 2013, respectively. The contract term with this distributor is for one year and is rolled over on an annual basis. The contract has been amended and renewed twice since the original contract inception in 1983. If this contract term were to lapse and not be renewed, book sales could be impacted. In addition, the Association had outstanding accounts receivable with this distributor of \$19,318 and \$20,523 as of August 31, 2014 and 2013, respectively. For the years ended August 31, 2014 and 2013, respectively, the Association received approximately 3% and 8% of funding through contributed services and facilities from the University which provides the Association with office space and pays the salary of one staff member.

**L. Commitments**

The Association entered into a lease during the year for certain office equipment in accordance with non-cancellable operating leases. Rent expense under the agreement, was \$370 in fiscal year 2014. A summary of future minimum lease payments is as follows:

Year ending June 30:

2015	\$ 2,220
2016	2,220
2017	2,220
2018	2,220
2019	<u>185</u>
Total future minimum lease payments	<u><u>\$ 9,065</u></u>

In 2009 the Association agreed to give \$500,000 to the University of North Texas Foundation, Inc. (the "Foundation") for the purpose of creating the Texas State Historical Association Endowment Fund (the "Fund"), a permanent endowment fund. Under the arrangement, if \$1,500,000 in cumulative gifts was not received by the Foundation within 5 years of the creation of the Fund, then at that time the Foundation would return the market value of the initial gift of \$500,000 to the Association. As of October 2013, the full endowment of \$1,500,000 in contributions and donations had been received by the Fund.

**M. Endowment Funds**

The Association's endowment consists of approximately 40 individual funds established for a variety of purposes. The endowments include donor-restricted endowments only. The Association does not have any board-designated endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**TEXAS STATE HISTORICAL ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**M. Endowment Funds – continued**

***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or State Prudent Management of Institutional Funds Act (“SPMIFA”) requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported as a reduction in unrestricted net assets. There were no such deficiencies as of August 31, 2014 or 2013.

***Interpretation of Relevant Law***

The Board of Directors of the Association is subject to SPMIFA, which requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the Association classifies as permanently restricted net assets the original value of gifts donated to a permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) Assure the safety of Association funds.
- (2) Maintain sufficient income and liquidity to meet cash needs and provide timely working funds.
- (3) Attain a reasonable total return consistent with prudent levels of risk.
- (4) Diversify investments as to maturity, instruments, and inherent risk.
- (5) Provide growth of both income and capital to enable the Association’s assets to increase on a real basis after adjusting for inflation and fees.

***Return Objectives and Risk Parameters***

The Association has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the long-term investment goal of the endowment assets. Endowment assets include those permanently restricted assets of donor-restricted funds that the Association must hold in perpetuity and temporarily restricted assets that the Association treats as a permanently restricted endowment. Under this policy, as approved by the Board of Directors, the endowment assets are invested to achieve a targeted minimum total rate of return on invested assets over a ten-year period at least equal to the rate of inflation (as measured by the change in the Consumer Price Index – Urban) plus 5%. Actual returns in any given year may vary from this amount.



**TEXAS STATE HISTORICAL ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**M. Endowment Funds – continued**

*Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints. The Association has appointed an Investment Committee to review the performance of the investments and make reports and/or recommendations to the Association’s Board of Directors on at least an annual basis.

*Spending Policy and How the Investment Objectives Relate to the Spending Policy*

The Association has a policy of appropriating for distribution each year a minimum of 3% on its endowment fund principal. Historically, any deficiencies in the actual rate below 3% will be advanced by the Association’s unrestricted net assets. Future earnings on endowments over 3% will be used to repay the advances from the unrestricted funds.

Endowment net asset classification by type of fund as of August 31, 2014:

Donor-restricted endowment funds	
Permanently restricted endowment funds	\$ 3,834,578
Temporarily restricted endowment funds	790,338
Unrestricted endowment funds	-
	\$ 4,624,916

Changes in endowment net assets for the year ended August 31, 2014, are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ -	\$ 281,779	\$ 3,533,929	\$ 3,815,708
Net assets transfers between restrictions	-	450,000	(450,000)	-
Investment income	-	255,976	649	256,625
Contributions	-	745,300	750,000	1,495,300
Amounts expended	-	(942,717)	-	(942,717)
Endowment net assets, end of year	\$ -	\$ 790,338	\$ 3,834,578	\$ 4,624,916

**TEXAS STATE HISTORICAL ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**M. Endowment Funds – continued**

***Spending Policy and How the Investment Objectives Relate to the Spending Policy – continued***

Endowment net asset classification by type of fund as of August 31, 2013:

Donor-restricted endowment funds	
Permanently restricted endowment funds	\$ 3,533,929
Temporarily restricted endowment funds	281,779
Unrestricted endowment funds	-
	\$ 3,815,708

Changes in endowment net assets for the year ended August 31, 2013, are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ -	\$ 222,885	\$ 3,533,291	\$ 3,756,176
Net assets transfers between restrictions	-	-	-	-
Investment income	-	143,030	638	143,668
Contributions	-	-	-	-
Amounts expended	-	(84,136)	-	(84,136)
Endowment net assets, end of year	\$ -	\$ 281,779	\$ 3,533,929	\$ 3,815,708

***Permanently Restricted Funds Released By Donor***

The Association contacted donors to encourage funds be released from permanent restrictions in order to fund current operations and alleviate the deficit of unrestricted funds. Three donors agreed to such terms for a total of \$450,000 of permanently restricted funds released by donors as reflected in the statement of activities for the year ended August 31, 2014.

## TEXAS STATE HISTORICAL ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS (*continued*)

#### **N. Retirement Plan**

The Association adopted a 401(k) Plan (the “Plan”) effective March 1, 1998. All employees are eligible to participate in the Plan. Upon completion of one year of service with the Association and attainment of age 18, the employee is eligible to receive employer contributions. Employees may elect to defer the maximum percentage allowable by the applicable Internal Revenue Code (the “Code”). The Association will match 100% of employee contributions up to 7.5% of the employee’s annual compensation. The Association may also, at its discretion, contribute additional amounts to the Plan. Employees are 25% vested after two years of service and continue to vest an additional 25% per year, to become fully vested after five (5) years. Employees become automatically fully vested in the Plan upon normal retirement age, early retirement age, disability, death, and termination of the Plan. The Association contributed \$41,826 and \$44,961 to the Plan for the years ended August 31, 2014 and 2013, respectively.

#### **O. Federal Income Taxes**

The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code except to the extent that it has unrelated business income. Therefore, no provision for income taxes is made in the accompanying financial statements.

FASB ASC 740 prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. In accordance with FASB ASC 740, the Association must determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The Association believes it has no such uncertain positions.

The Association files Form 990 in the United States federal jurisdiction and as of August 31, 2014, the Association’s tax returns related to the years of 2011 through 2013 remain open to possible examination by the Internal Revenue Service; however, no returns are currently under examination.

#### **P. Subsequent Events**

In preparing these financial statements, the Association’s management has evaluated all subsequent events and transactions for potential recognition or disclosure through January 26, 2015, the date that the financial statements were available for issuance.