

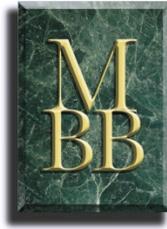
Montemayor Britton Bender PC

CERTIFIED PUBLIC ACCOUNTANTS

TEXAS STATE HISTORICAL ASSOCIATION

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

31 AUGUST 2023 AND 2022



Montemayor Britton Bender PC
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Management
Texas State Historical Association

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the accompanying financial statements of Texas State Historical Association (Association), a nonprofit organization, which comprise the statements of financial position as of 31 August 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Association as of 31 August 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 18 to the financial statements, certain errors resulted in the overstatement and understatement of financial statements previously reported. Accordingly, amounts recorded have been restated in fiscal year 2022 financial statements, and an adjustment have been made to net assets with and without donor restrictions. Our opinion is not modified with respect to the matter.

Responsibilities of Management for the Financial Statements

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 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Montemayer Bittor Bender PC

17 January 2024
Austin, Texas

TEXAS STATE HISTORICAL ASSOCIATION
STATEMENT OF FINANCIAL POSITION
31 AUGUST 2023 AND 2022

ASSETS

	<u>2023</u>	RESTATED <u>2022</u>
CURRENT ASSETS		
Cash and cash equivalents	\$240,376	\$170,317
Accounts receivable	34,757	30,501
Pledge receivable	480,000	0
Inventory	48,904	106,801
Promised facility use receivable	52,970	52,970
Prepaid expenses	<u>14,551</u>	<u>17,162</u>
	871,558	377,751
RESTRICTED CASH	0	125,000
RESTRICTED INVESTMENTS	1,849,983	1,946,750
FIXED ASSETS	<u>20,913</u>	<u>23,453</u>
	<u>\$2,742,454</u>	<u>\$2,472,954</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$31,053	\$49,454
Accrued liabilities	71,855	127,360
Deferred membership dues	76,715	103,554
Current portion of long-term debt	<u>60,000</u>	<u>55,000</u>
	239,623	335,368
LONG-TERM DEBT	<u>47,983</u>	<u>112,983</u>
	<u>287,606</u>	<u>448,351</u>
NET ASSETS		
With donor restrictions	2,303,322	2,204,520
Without donor restrictions	<u>151,526</u>	<u>(179,917)</u>
	<u>2,454,848</u>	<u>2,024,603</u>
	<u>\$2,742,454</u>	<u>\$2,472,954</u>

The accompanying notes are an integral part of this financial statement presentation.

TEXAS STATE HISTORICAL ASSOCIATION

STATEMENT OF ACTIVITIES

YEAR ENDED 31 AUGUST 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
Contributions	\$125,891	\$818,621	\$944,512
Nonfinancial contributions	552,259	0	552,259
ERTC	324,205	0	324,205
Special events	307,882	0	307,882
Host institution support	250,000	0	250,000
Memberships	181,413	0	181,413
Investment income	137,106	(6,768)	130,338
Publication and merchandise sales, net of cost of goods sold of \$120,069	75,200	0	75,200
Other income	10,836	0	10,836
Net assets released from donor restrictions	<u>713,051</u>	<u>(713,051)</u>	<u>0</u>
	<u>2,677,843</u>	<u>98,802</u>	<u>2,776,645</u>
EXPENSES			
Program	1,836,126	0	1,836,126
Administrative	286,723	0	286,723
Fundraising	<u>223,551</u>	<u>0</u>	<u>223,551</u>
	<u>2,346,400</u>	<u>0</u>	<u>2,346,400</u>
CHANGE IN NET ASSETS	331,443	98,802	430,245
BEGINNING NET ASSETS, as restated	<u>(179,917)</u>	<u>2,204,520</u>	<u>2,024,603</u>
ENDING NET ASSETS	<u>\$151,526</u>	<u>\$2,303,322</u>	<u>\$2,454,848</u>

The accompanying notes are an integral part of this financial statement presentation.

TEXAS STATE HISTORICAL ASSOCIATION

STATEMENT OF ACTIVITIES-RESTATED

YEAR ENDED 31 AUGUST 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
Contributions	\$203,448	\$337,500	\$540,948
Nonfinancial contributions	429,418	0	429,418
Host institution support	250,000	0	250,000
Publication and merchandise sales, net of cost of goods sold of \$140,113	42,785	0	42,785
Memberships	165,062	0	165,062
Special events	139,174	0	139,174
Investment income/(loss)	0	(328,274)	(328,274)
Other income	24,802	0	24,802
Net assets released from donor restrictions	<u>579,004</u>	<u>(579,004)</u>	<u>0</u>
	<u>1,833,693</u>	<u>(569,778)</u>	<u>1,263,915</u>
EXPENSES			
Program	1,721,155	0	1,721,155
Administrative	377,895	0	377,895
Fundraising	<u>160,448</u>	<u>0</u>	<u>160,448</u>
	<u>2,259,498</u>	<u>0</u>	<u>2,259,498</u>
CHANGE IN NET ASSETS	(425,805)	(569,778)	(995,583)
BEGINNING NET ASSETS, as restated	<u>245,888</u>	<u>2,774,298</u>	<u>3,020,186</u>
ENDING NET ASSETS	<u>(\$179,917)</u>	<u>\$2,204,520</u>	<u>\$2,024,603</u>

The accompanying notes are an integral part of this financial statement presentation.

TEXAS STATE HISTORICAL ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED 31 AUGUST 2023 AND 2022

	<u>2023</u>	RESTATED <u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$430,245	(\$995,583)
Depreciation	5,691	6,240
Unrealized (gain)/loss on investments	(97,845)	355,381
Change in account receivable	(4,256)	19,186
Change in grant receivable	0	475,200
Change in pledge receivable	(480,000)	65,500
Change in prepaid expenses	2,611	47,735
Change in inventory	57,897	(54,902)
Change in accounts payable	(18,401)	(9,536)
Change in accrued liabilities	(55,505)	52,230
Change in deferred membership dues	<u>(26,839)</u>	<u>6,509</u>
	<u>(186,402)</u>	<u>(32,040)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(3,151)	(5,508)
Sales of investments	246,779	0
Purchases of investments	<u>(52,167)</u>	<u>(27,108)</u>
	<u>191,461</u>	<u>(32,616)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on debt	<u>(60,000)</u>	<u>(70,397)</u>
NET CHANGE IN CASH AND RESTRICTED CASH	(54,941)	(135,053)
BEGINNING CASH AND RESTRICTED CASH	<u>295,317</u>	<u>430,370</u>
ENDING CASH AND RESTRICTED CASH	<u>\$240,376</u>	<u>\$295,317</u>

The accompanying notes are an integral part of this financial statement presentation.

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION

The Texas State Historical Association (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 Texas (University), in Austin, Texas and receives contributed services and facilities from the University as part of a hosting agreement. The agreement was entered into in fiscal year 2015, when the Association relocated from the campus of the University of North Texas in Denton, Texas.

The Association's activities are primarily funded by contributions, institutional support from the University, publication sales, and memberships.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Association uses the accrual basis of accounting. Revenues are recognized when earned regardless of when received. Expenses are recognized when incurred regardless of when paid.

FINANCIAL STATEMENT PRESENTATION

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions.

Net Assets With Donor Restrictions

Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

SUBSEQUENT EVENTS

The Association has evaluated subsequent events as of the date of the Independent Auditor's Report, the date the financial statements were available to be issued.

CASH AND CASH EQUIVALENTS

The Association considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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 net realizable value.

RECEIVABLES

Management periodically reviews accounts, grants, and pledges receivable on an account by account basis. Management considers past history with the contributor and the size of the account in evaluating the reserve requirements for potentially uncollectible amounts. Accounts are written off when management determines that collection efforts will not be successful. At year end all receivables were considered fully collectable and no allowance was recorded.

INVESTMENTS

Investments are stated at their readily determinable fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

FIXED ASSETS

Fixed assets are recorded at cost if purchased or at 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. Fixed assets consist solely of furniture and equipment.

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FEDERAL INCOME TAXES

The Association is a nonprofit organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business income. Therefore, no provision has been made for Federal income taxes. The Association's policy is to record interest and penalties related to income taxes as interest and other expense, respectively. At 31 August 2023 and 2022, no interest and penalties have been or are required to be accrued.

REVENUE AND REVENUE RECOGNITION

Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Event sponsorships are treated as contributions.

Event registration fees are recognized at a point in time, when the event occurs. Payments are received either in advance or on the day of the event. The advance payments the Association receives before the event are accounted for as deferred revenue until the date of the event. As of year end, there was no deferred revenue related to registration fees.

The Association recognizes revenue from member dues over the membership period, which is generally one year. The performance obligations consists of providing members with annual meeting registrations and copies of the Texas Almanac, which are recognized at a point in time on the date the book is provided; and access to the Southwestern Historical Quarterly and discounts that are recognized over time as they are provided to the members throughout the membership term. Revenue from member dues is recognized ratably as services are simultaneously received and consumed by the members. Payments are typically received in advance of the membership period to which they relate. Due to the nature and timing of the performance, substantially all contract liabilities remaining at year end are recognized in the following year.

The Association has contracts with publishing companies and libraries to provide licenses to these companies to use and distribute publications. Revenue is recognized at a point in time at the start of the licensing agreements when the publishing company receives access and right to use the content. Payments under these licensing agreements are typically paid annually or quarterly.

Revenues from the sales of publications are recognized at the time of the sale when the good is purchased by the customer. Payment is typically due and paid at the time of purchase. Sales taxes the Association collects are excluded from revenue. These goods are available for purchase by the general public.

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FUNCTIONAL ALLOCATION OF EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel, printing and copying, rent, offsite meetings and events, publications costs, professional fees, information technology, contract services, travel, postage and shipping, interest, depreciation, and other expenses which are allocated based on estimates of time and effort spent on each function and management's knowledge and review of specific invoices.

NOTE 3: FIXED ASSETS

	<u>2023</u>	<u>2022</u>
Furniture and equipment	\$144,311	\$141,161
Accumulated depreciation	<u>(123,398)</u>	<u>(117,708)</u>
	<u>\$20,913</u>	<u>\$23,453</u>

NOTE 4: RETIREMENT PLAN

The Association adopted a 401(k) Plan (the Plan) effective 1 March 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 Association will match 100% of employee contributions up to 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 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 made contributions of \$23,588 and \$24,872 to the Plan for the fiscal years ended 2023 and 2022, respectively.

NOTE 5: RELATED PARTY TRANSACTIONS

In fiscal year 2022, accounting services were provided by an accounting firm, at a discounted rate, owned by a board member. The total paid during the year for these services was \$42,853.

A board member is a guarantor for a portion of the Association's note payable, see Note 8.

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 6: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2023</u>	<u>2022</u>
Cash	\$240,376	\$170,317
Pledge receivable	480,000	0
Accounts receivable	<u>34,757</u>	<u>30,501</u>
	755,133	200,818
Less: amount unavailable for general expenditures within one year, due to donor-imposed restrictions	<u>(248,339)</u>	<u>(152,770)</u>
	<u>\$506,794</u>	<u>\$48,048</u>

As part of the Association's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The policy is that monthly revenues are to cover monthly expenses. Monthly revenues and expenditures are deposited in and deducted from the Association's operating accounts.

The Association's investment accounts are all restricted for endowments, see Note 14. Income from donor-restricted endowments is restricted for specific purposes. Donor-restricted endowment funds are not available for general expenditure. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Association obtained permission from a donor to borrow up to \$200,000 from the endowment funds, see Note 14 for additional information.

See Note 7 for additional details regarding the nature of donor imposed restrictions on cash and investments that are not available for general expenditures within one year of the statement of financial position date.

See Note 8 for the terms of the Association's debt.

NOTE 7: RESTRICTED CASH

The Association is required to hold \$120,000 plus accrued interest in a separate account as collateral for the debt discussed in Note 8.

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 7: RESTRICTED CASH

The Association has \$5,000 in cash that is permanently restricted as part of the endowment, see Note 14.

NOTE 8: DEBT

The Association has a note payable with an original principal of \$500,000. The note bears interest at a rate of 5.5% per annum. The note is guaranteed up to \$100,000 by a board member. Additionally, it is collateralized by a money market account and the Association's property. Payments are due in monthly installments of principal of \$5,000 plus interest.

Future maturities are as follows, for the years ended 31 August:

	<u>2023</u>	<u>2022</u>
2023	\$0	\$55,000
2024	60,000	60,000
2025	<u>47,983</u>	<u>52,983</u>
	<u>\$107,983</u>	<u>\$167,983</u>

On 18 October 2022, the Association renewed the terms of the loan to reduce the collateral required to be held in a money market account to \$60,000. All other terms of the loan remained the same.

NOTE 9: REVENUE FROM CONTRACTS WITH CUSTOMERS

DISAGGREGATION OF REVENUE

Revenue from contracts with customers disaggregated based on the timing of satisfaction of performance obligations is as follows:

	<u>2023</u>	<u>2022</u>
Over time	<u>\$125,250</u>	<u>\$146,381</u>
At a point in time	<u>\$368,374</u>	<u>\$338,797</u>

Revenue from performance obligations satisfied at a point in time consists of publication sales, licensing fees, advertising income, exhibitor fees, registrations, auction proceeds, a portion of membership dues. Revenue from performance obligations satisfied over time consist of membership dues.

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 9: REVENUE FROM CONTRACTS WITH CUSTOMERS

CONTRACT BALANCES

Accounts receivable from contracts with customers consist of the Association's right to payment from permissions and licensing services that have been provided during the year. The balances of accounts receivable at 31 August 2023 and 2022 were \$34,757 and \$25,094, respectively.

Contract liability balances primarily consist of deferred revenues for amounts received in one year that relates to membership benefits to be provided in the following year. The balances of contract liabilities at 31 August 2023 and 2022 were \$76,715 and \$103,554, respectively.

PERFORMANCE OBLIGATIONS

The Association's remaining performance obligations relate to membership benefits to be provided in the following year. The Association has elected to apply the exemption for disclosing of the remaining performance obligations because they are a part of contracts that have an original duration of one year or less.

NOTE 10: COMMITMENTS

The Association has entered into a contract with a hotel to provide hotel guest rooms and meeting space for a conference to be held in 2024 and 2025. The Association has the option to cancel the 2025 contract 181 days or more prior to arrival with a cancellation fee of 25%. As of 31 August 2023, the Association's commitment under this contract was \$42,365. The Association has the option to cancel the 2024 contract 3 to 6 months prior to arrival with a cancellation fee of 75% of guest room and food and beverage revenues. As of 31 August 2023, the Association's commitment under this contract was \$72,713.

NOTE 11: CONTRIBUTED NONFINANCIAL ASSETS

	<u>2023</u>	<u>2022</u>
Facilities	\$338,159	\$317,818
Salaries	<u>214,100</u>	<u>111,600</u>
	<u>\$552,259</u>	<u>\$429,418</u>

The Association recognized contributed nonfinancial assets within revenue, including contributed facilities use and salaries. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 11: CONTRIBUTED NONFINANCIAL ASSETS

The contributed facilities are for office space and warehouses in various buildings at the University of Texas campus, used for program, administrative, and fundraising activities. The Association's facilities lease agreement is for a period of 10 years which will expire in February 2025 and can be terminated with 60 days notice. After the initial term, the agreement shall automatically renew each year for one year period until February 2040. The contributed facilities use is valued based on fair value for office rent of similar buildings in similar locations.

Contributed salaries recognized comprise professional services from the Executive Director and Chief Historian of the Association. The Chief Historian is for an initial five-year term effective 1 September 2017 on various administrative and program matters. Contributed salaries are valued and reported at the estimated fair value based on current rates for similar services.

NOTE 12: CONCENTRATIONS

14% and 48% of the Association's revenue is from the University for fiscal year end 2023 and 2022, respectively.

At 31 August 2023 and 2022, the Association had investment balances in excess of SIPC insurance amounting to \$1,349,983 and \$1,446,750, respectively. The Association has not experienced any losses due to this credit risk.

NOTE 13: NET ASSETS WITH DONOR RESTRICTIONS

Net assets released from donor restrictions during the year ended 31 August 2023:

Satisfaction of purpose restrictions:

Annual meeting	\$37,233
Handbook of Texas	203,761
Texas Almanac	347,669
Texas History Day	77,500
Education	38,388
Other	<u>8,500</u>
	713,051
Loss on endowment investment funds	<u>6,768</u>
	<u>\$719,819</u>

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 13: NET ASSETS WITH DONOR RESTRICTIONS

Balances of net assets with donor restrictions at year end 31 August 2023:

Purpose restriction:

Handbook of Texas	\$94,010
Texas Almanac	132,329
Texas History Day	16,000
Publications	<u>6,000</u>
	<u>248,339</u>

Perpetual in nature:

Awards	301,952
Education	1,457,669
Publications	357,018
Handbook of Texas	<u>150,000</u>
	2,266,639
Underwater deficiency (Note 14)	<u>(211,656)</u>
	<u>2,054,983</u>
	<u>\$2,303,322</u>

Net assets released from donor restrictions during the year ended 31 August 2022:

Satisfaction of purpose restrictions:

Annual meeting	\$20,000
Awards	16,455
Publications	20,473
Handbook of Texas	145,870
Texas Almanac	311,355
Texas History Day	102,500
Education	<u>85,737</u>
	702,390

Loss on endowment investment funds	<u>204,888</u>
	<u>\$907,278</u>

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 13: NET ASSETS WITH DONOR RESTRICTIONS

Balances of net assets with donor restrictions at year end 31 August 2022:

Purpose restriction:

Handbook of Texas	<u>\$152,770</u>
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Perpetual in nature:

Awards	291,951
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Education	1,457,669
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Publications	357,018
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Handbook of Texas	<u>150,000</u>
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2,256,638

Underwater deficiency (Note 14)	<u>(204,888)</u>
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2,051,750

\$2,204,520

NOTE 14: ENDOWMENT

The Association's endowment consists of numerous individual funds established for a variety of donor-restricted purposes. The Association does not have any board-designated endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. All investments of the Endowment Fund are recorded in the statement of financial position as restricted investments, including cash balances held by the external investment managers.

The Fred Ryder Cotten Popular History Publications Fund, included in publications, requires 5% of investment income to be reinvested in the endowment each year, with the remaining 95% available to support publication activities. The Dunagan Holden Publication Fund, included in publications, requires proceeds from books published by this endowment to be returned to the endowment.

The Endowment Fund Management Board (the Management Board) annually determines the amount of distributable funds for expenditure based on a total return on principal, not to exceed 7% of the total return value of the Endowment Fund. Funds designated for expenditure during the fiscal year ended 31 August 2023 were \$129,874. There were no funds designated for expenditure during the fiscal year ended of 31 August 2022.

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 14: ENDOWMENT

Changes in endowment net assets for the year 31 August 2023:

	<u>With Donor Restrictions</u>
Beginning endowment net assets	\$2,051,750
Contributions	5,000
Investment income/(loss)	126,405
Appropriations for expenditure	<u>(129,948)</u>
Ending endowment net assets	<u>\$2,053,207</u>

Changes in endowment net assets for the year 31 August 2022:

	<u>With Donor Restrictions</u>
Beginning endowment net assets	\$2,375,024
Contributions	5,000
Investment income/(loss)	<u>(328,274)</u>
Ending endowment net assets	<u>\$2,051,750</u>

Interpretation of Relevant Law

The Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date to the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies donor-restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions to be held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and reservation of the fund
- The purposes of the Association and the donor-restricted endowment fund

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NOTES TO FINANCIAL STATEMENTS

NOTE 14: ENDOWMENT

- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Association
- The investment policies of the Association

Return Objective and Risk Parameters and Strategies Employed for Achieving Objectives:

The endowment funds are invested under the direction of the Management Board to achieve a reasonable total return on the assets, while limiting the risk exposure to ensure the preservation of capital. The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to attain an average annual real total return of at least 4% annually. Actual returns in any given year may vary from this amount.

Spending Policy and How the Investments Objective Relate to Spending Policy:

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) 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 within prudent risk constraints.

Underwater Endowment Fund

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 the UPMIFA requires the Association to retain as a fund of perpetual duration. The Association considers a fund to be underwater if the fair value of the fund is less than the sum of the original value of initial and subsequent gift amounts and any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Association has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

The underwater deficiency resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds, and continued appropriation for certain programs that was deemed prudent by management.

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NOTES TO FINANCIAL STATEMENTS

NOTE 14: ENDOWMENT

Endowment net asset composition by type of fund:

	<u>With Donor Restrictions</u>	
	<u>2023</u>	<u>2022</u>
Restricted investments	\$1,849,983	\$1,946,750
Restricted cash for endowment (Note 7)	5,000	5,000
Donor approved loan from endowment	<u>200,000</u>	<u>100,000</u>
	2,054,983	2,051,750
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	<u>2,264,599</u>	<u>2,256,638</u>
Underwater deficiency	<u>(\$209,616)</u>	<u>(\$204,888)</u>

Investments consist of :

	<u>2023</u>	<u>2022</u>
Mutual funds	\$551,633	\$770,642
Exchange-traded funds	1,148,793	1,149,364
Cash sweep	<u>149,557</u>	<u>26,744</u>
	<u>\$1,849,983</u>	<u>\$1,946,750</u>

Donor approved loan from endowment

During 2018, the Association obtained a loan from their endowment funds with approval from the donor up to \$200,000, to be paid back with interest of prime plus one. There are no terms for the repayment date. The Association withdrew \$100,000 from the endowment funds to be held in perpetuity related to this loan. At 31 August 2022, the total due back to the endowment funds was the loan of \$100,000 plus interest of \$25,000. The interest is not included in the endowment net assets, because it is not required to be a part of the endowment until the loan is repaid. During 2023, the Association obtained a second loan of \$100,000 from endowment funds with approval from the donor. This loan is to be paid back by August 2024 with interest of 3%.

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 15: FAIR VALUE DISCLOSURES

Fair value at 31 August 2023:

	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	<u>\$551,633</u>	<u>\$0</u>	<u>\$0</u>
Exchange-traded funds	<u>\$1,148,793</u>	<u>\$0</u>	<u>\$0</u>

Fair value at 31 August 2022:

	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	<u>\$770,642</u>	<u>\$0</u>	<u>\$0</u>
Exchange-traded funds	<u>\$1,149,364</u>	<u>\$0</u>	<u>\$0</u>

NOTE 16: CONTINGENCY

The Association has not maintained sufficient assets to comply with donor-imposed restrictions. The Association is unable to estimate the possible loss, if any, that could result from this situation.

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Cash	\$240,376	\$170,317
Restricted cash for endowment funds	5,000	5,000
Accounts receivable	34,757	30,501
Pledge receivable	480,000	0
Investments	<u>1,849,983</u>	<u>1,946,750</u>
	<u>2,610,116</u>	<u>2,152,568</u>
<u>Net assets with donor restrictions</u>		
Purpose-restricted	248,339	152,770
To be maintained in perpetuity, excluding approved loan of \$200,000 and \$100,000, respectively	<u>2,264,599</u>	<u>2,256,638</u>
	<u>2,512,938</u>	<u>2,409,408</u>
Net assets with donor restrictions in excess of available assets	<u>\$97,178</u>	<u>(\$256,840)</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 17: FUNCTIONAL EXPENSES

Functional expense allocations at 31 August 2023:

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$1,097,731	\$187,069	\$166,246	\$1,451,046
Rent	262,064	44,420	31,675	338,159
Offsite meeting and events	131,987	0	276	132,263
Publication costs	119,767	303	0	120,070
Information technology	48,424	5,563	5,234	59,221
Professional fees	30,046	19,662	3,845	53,553
Awards	51,830	0	0	51,830
Printing and copying	36,800	5,661	4,718	47,179
Contract services	41,646	2,554	2,109	46,309
Postage and shipping	16,571	1,618	1,270	19,459
Travel	17,148	1,204	454	18,806
Director fees	16,000	0	0	16,000
Other	<u>85,879</u>	<u>18,972</u>	<u>7,724</u>	<u>112,575</u>
	1,955,893	287,026	223,551	2,466,470
Less expenses included with revenues:				
Cost of goods sold	<u>(119,767)</u>	<u>(303)</u>	<u>0</u>	<u>(120,070)</u>
	<u>\$1,836,126</u>	<u>\$286,723</u>	<u>\$223,551</u>	<u>\$2,346,400</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 17: FUNCTIONAL EXPENSES

Functional expense allocations at 31 August 2022:

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$1,097,224	\$251,527	\$110,965	\$1,459,716
Rent	258,278	29,770	29,770	317,818
Publications costs	139,676	377	60	140,113
Offsite meetings and events	112,009	65	3,197	115,271
Professional fees	33,817	28,553	1,504	63,874
Information technology	49,153	7,164	7,271	63,588
Awards	56,057	0	0	56,057
Director fees	31,036	0	0	31,036
Contract services	14,894	11,636	0	26,530
Travel	8,553	11,625	1,160	21,338
Postage and shipping	13,483	5,082	127	18,692
Interest	779	9,804	223	10,806
Depreciation	3,495	1,747	998	6,240
Other	<u>42,377</u>	<u>20,922</u>	<u>5,233</u>	<u>68,532</u>
	1,860,831	378,272	160,508	2,399,611
Less expenses included with revenues:				
Cost of goods sold	<u>(139,676)</u>	<u>(377)</u>	<u>(60)</u>	<u>(140,113)</u>
	<u>\$1,721,155</u>	<u>\$377,895</u>	<u>\$160,448</u>	<u>\$2,259,498</u>

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 18: PRIOR PERIOD ADJUSTMENT

At 31 August 2021 and 2022 contributed facilities use receivable was understated by \$52,970, deferred membership dues were understated by \$102,044 and \$19,937, respectively, debt was overstated by \$5,000 and net assets without donor restrictions were overstated by \$44,074 and \$50,193, respectively. A prior period adjustment has been posted to beginning net assets without donor restrictions. At 31 August 2022 net assets without donor restriction were overstated by \$35,256 and net assets with donor restriction were understated by the same amount. A prior period adjustment has been posted to beginning net assets with and without donor restriction.

Prior period adjustments as of 31 August 2021:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Beginning net assets, as previously reported	\$289,962	\$2,774,298	\$3,064,260
Contributed facilities use receivable	52,970	0	52,970
Debt	5,000	0	5,000
Deferred membership dues	<u>(102,044)</u>	<u>0</u>	<u>(102,044)</u>
Beginning net assets, as restated	<u>\$245,888</u>	<u>\$2,774,298</u>	<u>\$3,020,186</u>

Prior period adjustment as of 31 August 2022:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Beginning net assets, as previously reported	(\$129,724)	\$2,169,264	\$2,039,540
Net assets with/without donor restriction	(35,256)	35,256	0
Debt	5,000	0	5,000
Deferred membership dues	<u>(19,937)</u>	<u>0</u>	<u>(19,937)</u>
Beginning net assets, as restated	<u>(\$179,917)</u>	<u>\$2,204,520</u>	<u>\$2,024,603</u>

TEXAS STATE HISTORICAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 19: CHANGE IN ACCOUNTING PRINCIPLE

During the year ended 31 August 2022, the Association adopted Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. The standard also increases the disclosure requirements for contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.