



EXECUTIVE DIRECTOR'S MESSAGE "WEMA"

Galveston offers so much history in so many places. The East End Historic District is recognized and coveted for its neighborhood beauty and period architectural purity. The Strand-Mechanic National Historic District provides a modern-day glimpse of a commercial district not dramatically different from its appearance 120 years ago. These community assets give Galveston a unique identity and make her special.

But Galveston's history is deep and wide, extending to parts of the island less familiar. On Market, west of 25th, a renewal is taking shape that GHF is leading. We now own two important properties west of 25th: the 1904 Galveston, Houston and Henderson Railroad Freight Depot at 3304 Market and the 1903 Star State #3 Firehouse at 2802 Market. We want to see this area of Galveston bustle once more. Plans are firming to invest organizational and partner resources into these properties to rehabilitate this area and make this history attractive and accessible to citizens and heritage tourists.

This neighborhood speaks of vintage, eclectic and industrial... with a bit of on-the-come cool. Most importantly, we see an opportunity to bring Galveston and her visitors to our Depot and Firehouse to learn new things, experience historic storylines of the Galveston History Project and enjoy special events. Market west of 25th is going to come alive and GHF will make sure her history lives on as well.

So, the footprint of GHF continues to grow, and with it Galveston's rehabilitated historic building stock grows as well. Importantly, the history associated with these time-tested structures will live and entertain and educate. And all the while, new history will be made for future generations. Sounds like the mission of Galveston Historical Foundation to me, and we aim to meet it.



- ORIGINAL STRUCTURE CONSTRUCTED IN 1859
- POST 1900 STORM IT WAS RE-BUILT IN 1903
- IN 1959 IT WAS THE FIRST FIREHOUSE IN THE CITY TO BE INTEGRATED
- ULTIMATELY DE-COMMISSIONED IN THE 1960'S
- STUCCO REPLACED ORIGINAL BRICKWORK
- STABILIZATION WORK HAS BEGUN, WITH PLANS FOR COMPLETE REHABILITATION

OUR HISTORY

Galveston Historical Foundation preserves and revitalizes the architectural, cultural, and maritime heritage of Galveston Island.

Galveston Historical Foundation (GHF) operates one of the largest and most comprehensive non-profit (501(c) 3 preservation organizations in the United States. Long committed to the protection of Galveston's maritime and architectural past, GHF is a significant historic property owner, heritage tourism promoter and economic engine for the local economy.

GHF brings Galveston history to life. Since 1954, we have preserved historic properties and vessels, and the stories that enrich them. Our commitment includes the purchase, rehabilitation and stabilization of properties, as well as developing larger, contextual preservation programs for historic neighborhoods and communities. GHF creates and promotes heritage tourism programs on Galveston Island to connect today's visitor with the past and also earn income to continue our mission.

GHF owns and manages 16 historically significant properties. Such sites as Bishop's Palace, ELISSA, Ashton Villa and the Michel Menard House draw more than 120,000 heritage tourists each year. Our longstanding special events, Dickens on The Strand and Historic Homes Tour, bring to life people, buildings and events of historical significance and deliver them to today's heritage tourist.

GHF is also a leader in gulf coast maritime and environmental education. More than 450 volunteers give as much as 30,000 hours annually to learn tall ship sailing techniques on ELISSA, one of the few tall ships still sailing in the world. Adults and children (approx. 10,000 per year) learn about aquatic life and history aboard the Seagull II (GHF's floating classroom), while school aged children routinely participate in youth sail training aboard ELISSA.

In 1975 GHF began a revolving fund to save threatened properties. It has moved from buying and stabilizing commercial properties on The Strand to the purchase and rehabilitation of single family homes in historic residential neighborhoods, helping increase the stock of affordable homes in the historic district. Our Paint Pals program regularly enlists volunteers to identify and paint distressed single family houses in historic areas, renewing pride of ownership and improving neighborhoods.

Our Center for Coastal Heritage develops programs and research for preserving historic properties in coastal environments in response to climate change and hurricane storm surge, while our Preservation Services department provides historic property records and research for historic home owners.

All this, and so much more, continues GHF's lead role in preserving the rich history of our island. This work is critical, providing an opportunity for those who come after to glean important lessons and live more informed, fulfilling lives.



FY 2017 IN REVIEW

Galveston Historical Foundation continues tackling projects, events and festivals aimed at making history educational, relevant and fun for today's visitor, while continuing the steady work of preserving historic houses, buildings and Galveston's maritime heritage. Over the last fiscal year, two important, multi-year projects continued developing:

GALVESTON HISTORY PROJECT

The Galveston History Project is GHF's strategic change to deliver history via technology-driven and interactive storylines. These storylines come from the lives and times of historic Galvestonians and the effort to bring them to the public continued apace over FY 2017. A number of storyline-related events were held last year while fundraising and locating the project's hub (The GH&H Depot!) continued. Fortunately, both pursuits were successful.

Noteworthy special events included activities surrounding the Deepwater Jubilee, the late 19th century effort to deepen Galveston's harbor for larger vessels. It required the President of the United States' signature and a herculean effort to make it happen. When it finally did, Galveston went into celebration mode. From lectures, to book clubs to the visiting tall ship El Galeon, 2017's Deepwater Jubilee events offered a fascinating glimpse of Galveston's maritime history.

By early summer the Moody Foundation had awarded a \$1 million grant that allowed the 1904 Galveston, Houston and Henderson Freight Depot building to be purchased as the central hub of the Galveston History Project. Work to re-purpose the building is underway. Galveston History Project storyline, "The Galveston Flood," will debut at the Depot.

GALVESTON TALL SHIPS

The tall ships are coming to Galveston April 5-8, 2018, and festival preparations continue.

Elissa will be joined by six to eight tall ships lining Galveston's ship



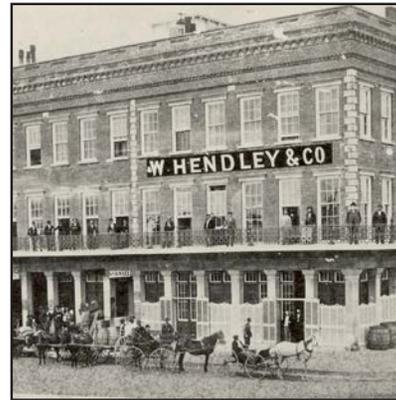
- 1904 GALVESTON, HOUSTON, AND HENDERSON FREIGHT DEPOT
- GH&H RAIL LINE WAS TEXAS' OLDEST
- ORIGINAL STRUCTURE OPENED FOR BUSINESS IN 1853
- BUILT TO HANDLE THE ENTIRE COTTON CROP OF TEXAS
- THE 46 MILES OF THE LINE THAT EXTENDED TO HOUSTON ARE NOW OPERATED BY UNION PACIFIC
- THE FUTURE HOME OF THE GREAT STORM, THE INTERACTIVE STORYLINE OF THE GALVESTON HISTORY PROJECT

channel, offering a very rare maritime experience. For three days visitors can step into the age of sail and experience the nuance and majesty of these international vessels, and perhaps even take a ride on one of these nautical treasures.

Visitors can tour the ships, attend special evening events, experience a vessel under sail and enjoy a complete festival atmosphere of food, drink music and fun.

FY 2016: A LOOKBACK

In late summer 2016, Galveston Heritage festival gathered multicultural artists, musicians and attendees to celebrate diversity and highlight



Galveston's place in U.S. immigration history. Festival goers had the opportunity to review an immigration database for their own family and interact with a visual timeline of immigrants and their stories as they arrived in Galveston.

The Strand Mechanic National Historic District represents an important part of Galveston history and the Hendley Row buildings were central to the island's cotton trade. GHF now has much of the building leased and is preparing for a portion of its administrative team to be housed in this historic structure.

Annual holiday favorite Dickens on The Strand experienced historic rain and wind and the festival ultimately had to be extended to a second Saturday for the first time. The opportunity for a do-over provided a smaller number of festival goers the opportunity to soak up the seasonal nod to Victorian England.

A merry mood abounded, attendance was respectable, and we look forward to 2017's event.

GHF's Revolving Fund produced three exceptional historic homes for sale, with two selling. Two of the three properties were relocated and completely rehabilitated, then offered for sale at affordable prices in historic districts. These homes join the scores and scores that GHF has saved over the decades, deepening GHF's mission accomplishment over the years.

A special preservation opportunity has presented itself on the West side of Market, across 25th street. In addition to the above-mentioned GH&H Depot at 33rd and Market, GHF now owns the 1903 Star

State Company #3 Firehouse at 2804 Market. The firehouse will be a long work in progress, so stay tuned. Market west of 25th is coming alive and GHF will help lead the revival.

2017 Day Sails were shortened a bit in preparation for Tall Ships Galveston, though spirits and participation were both high. Good weather and cooperating breezes accompanied volunteer crew and invited guests during the shortened week-long events.

Bishop's Palace, the jewel of the Broadway mansions, produced record numbers of visitors and enjoyed repeated sell outs of special events, like basement-to-attic and full moon tours. The beloved Gresham House was bursting at the seams over spring break and as early summer blossomed, routinely seeing more than 400 visitors on very busy days.

Finally, GHF members ate, drank and socialized vigorously at the 2017 Annual Meeting. A new President and board were approved amidst the rollicking affair, with likely 350 members in attendance. Many thanks to all for their support.

SUPPORT

FY 2017 was a special one for giving at GHF. Three seven figure gifts were received, while GHF members and friends provided strong additional philanthropy for operations and programs.

Significant Support:

- \$1 million endowed fund for the benefit of Bishop's Palace - Given by the late Mrs. Josephine Reid
- \$2 million to support the expansion of Texas Seaport Museum - Given by the Dan L. Duncan Foundation
- \$1 million to support the Galveston History Project - Given by Moody Foundation
- \$400,000 to support the Galveston History Project - Given by Houston Endowment

Each gift, from \$2 to \$2 million, is meaningful. The support from

members and friends continues to power our mission and drive our bold belief in the preservation possibilities across Galveston and beyond. To our friends and partners, we offer a sincere "thank you."





A NEW BOARD TAKES SHAPE FOR NEW CHALLENGES

BOARD OF DIRECTORS 2016-2017

NAME	PHONE	EMAIL
Monty Bludworth, President	409-682-5636	monty.bludworth@gmail.com
John B. Smith, Vice President	409-539-9241	jsmith@moodybank.com
Dwayne Jones, Secretary	409-765-3422	dwayne.jones@galvestonhistory.org
Kyle McFatridge, Treasurer	409-457-6666	kmcfatridge@htbna.com
Jeri Kinnear, Immediate Past President/Board Development	409-682-7640	jerikinnear@att.net
Debbie Morris, Past President	281-808-9627	dmorris@chuchmorrishomes.com
Frances St. John, Past President	713-443-3711	riverhouse688@yahoo.com
Olivia Meyer	409-761-0650	oliviameyer@yahoo.com
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Task Force Appointees

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GALVESTON HISTORICAL FOUNDATION, INC.

**COMBINED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
As of and for the Years Ended June 30, 2017 and 2016**

GALVESTON HISTORICAL FOUNDATION, INC.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Galveston Historical Foundation, Inc.

Report of Financial Statements

We have audited the accompanying combined financial statements of Galveston Historical Foundation, Inc., a non-profit organization, its subsidiary, Galveston Island Tours, and GHF Endowment, Inc., a non-profit organization (collectively, the "Foundation"), which comprise the combined statements of financial position as of June 30, 2017 and 2016 and the related combined 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 combined 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 the audit to obtain reasonable assurance about whether the combined 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 combined 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 combined 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 combined financial position of the Foundation as of June 30, 2017 and 2016, 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.

INDEPENDENT AUDITOR'S REPORT, continued

Other Matters

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining statements of financial position, combining statements of activities, combining statements of cash flows, and combined statement of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ham, Laughlin & Buzina, L.L.P.

Houston, Texas
January 16, 2018

GALVESTON HISTORICAL FOUNDATION, INC.
COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 743,521	\$ 468,061
Receivables:		
Pledges	3,185,000	150,000
Hotel occupancy tax	100,116	109,585
Other	5,456	106,657
Inventory	253,547	272,280
Prepaid expenses	776	4,586
	4,288,416	1,111,169
Property and equipment, net	6,830,318	7,268,166
Historical treasures	6,578,306	6,578,306
Investments held for endowment purposes	3,500,710	3,247,156
Investment properties held for sale	923,955	462,006
Investment in common stock	10,815	-
	10,815	-
Total assets	\$ 22,132,520	\$ 18,666,803
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 122,719	\$ 191,168
Notes payable, current	1,278,446	896,891
	1,401,165	1,088,059
Total current liabilities	1,401,165	1,088,059
Rental deposits	137,290	76,968
Notes payable, long term	150,000	150,000
	150,000	150,000
Total liabilities	1,688,455	1,315,027
Net assets:		
Unrestricted:		
Undesignated	13,275,395	13,806,748
Designated by Board of Directors	1,380,948	1,120,274
Temporarily restricted	3,459,625	96,657
Permanently restricted	2,328,097	2,328,097
	20,444,065	17,351,776
Total net assets	20,444,065	17,351,776
Total liabilities and net assets	\$ 22,132,520	\$ 18,666,803

The accompanying notes are an integral part of these financial statements.

GALVESTON HISTORICAL FOUNDATION, INC.
COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions and grants	\$ 825,396	\$ 3,941,631	\$ -	\$ 4,767,027
Event income	579,785	-	-	579,785
Admissions and activity fees	1,257,033	-	-	1,257,033
Merchandise sales	705,962	-	-	705,962
Membership dues	160,224	-	-	160,224
Rental fee income	403,803	-	-	403,803
Other	105,746	-	-	105,746
Investment income	82,949	-	-	82,949
Realized gain (loss) on endowment funds	29,050	-	-	29,050
Realized gain (loss) on sale of assets	39,247	-	-	39,247
Unrealized appreciation (depreciation) on investments	343,087	-	-	343,087
Total support and revenue	4,532,282	3,941,631	-	8,473,913
Net assets released from restriction				
Satisfaction of program restrictions	578,663	(578,663)	-	-
Expense:				
Program services:				
Events	780,803	-	-	780,803
Preservation services	519,364	-	-	519,364
Museums	83,990	-	-	83,990
Texas Seaport Museum	1,056,554	-	-	1,056,554
Seagull	177,927	-	-	177,927
Ashton Villa	166,740	-	-	166,740
Garten Verein	188,930	-	-	188,930
Bishop's Palace	662,082	-	-	662,082
Other historical properties	158,783	-	-	158,783
Strand retail	245,268	-	-	245,268
Galveston Island Tours	3,544	-	-	3,544
Total program services	4,043,985	-	-	4,043,985
Supporting services:				
Management and general	848,474	-	-	848,474
Membership fundraising	11,024	-	-	11,024
Marketing	478,141	-	-	478,141
Total supporting services	1,337,639	-	-	1,337,639
Total expenses	5,381,624	-	-	5,381,624
Changes in net assets	(270,679)	3,362,968	-	3,092,289
Net assets, beginning of year	14,927,022	96,657	2,328,097	17,351,776
Net assets, end of year	<u>\$ 14,656,343</u>	<u>\$ 3,459,625</u>	<u>\$ 2,328,097</u>	<u>\$ 20,444,065</u>

The accompanying notes are an integral part of these financial statements.

GALVESTON HISTORICAL FOUNDATION, INC.
COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions and grants	\$ 2,694,264	\$ 569,029	\$ -	\$ 3,263,293
Event income	780,382	-	-	780,382
Admissions and activity fees	1,168,633	-	-	1,168,633
Merchandise sales	794,518	-	-	794,518
Membership dues	168,684	-	-	168,684
Rental fee income	402,605	-	-	402,605
Other	149,833	-	-	149,833
Investment income	15,269	-	-	15,269
Realized gain (loss) on endowment funds	87,683	-	-	87,683
Realized gain (loss) on sale of assets	20,390	-	-	20,390
Unrealized appreciation (depreciation) on investments	(110,541)	-	-	(110,541)
Total support and revenue	<u>6,171,720</u>	<u>569,029</u>	<u>-</u>	<u>6,740,749</u>
Net assets released from restriction				
Satisfaction of program restrictions	<u>1,088,508</u>	<u>(1,088,508)</u>	<u>-</u>	<u>-</u>
Expense:				
Program services:				
Events	886,653	-	-	886,653
Preservation services	617,063	-	-	617,063
Museums	90,194	-	-	90,194
Texas Seaport Museum	1,350,994	-	-	1,350,994
Seagull	226,584	-	-	226,584
Ashton Villa	199,198	-	-	199,198
Garten Verein	176,749	-	-	176,749
Bishop's Palace	1,157,729	-	-	1,157,729
Other historical properties	137,760	-	-	137,760
Strand retail	210,905	-	-	210,905
Galveston Island Tours	10,684	-	-	10,684
Total program services	<u>5,064,513</u>	<u>-</u>	<u>-</u>	<u>5,064,513</u>
Supporting services:				
Management and general	990,021	-	-	990,021
Membership fundraising	12,048	-	-	12,048
Marketing	532,302	-	-	532,302
Total supporting services	<u>1,534,371</u>	<u>-</u>	<u>-</u>	<u>1,534,371</u>
Total expenses	<u>6,598,884</u>	<u>-</u>	<u>-</u>	<u>6,598,884</u>
Changes in net assets	661,344	(519,479)	-	141,865
Net assets, beginning of year	<u>14,265,678</u>	<u>616,136</u>	<u>2,328,097</u>	<u>17,209,911</u>
Net assets, end of year	<u>\$ 14,927,022</u>	<u>\$ 96,657</u>	<u>\$ 2,328,097</u>	<u>\$ 17,351,776</u>

The accompanying notes are an integral part of these financial statements.

GALVESTON HISTORICAL FOUNDATION, INC.
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 3,092,289	\$ 141,865
Adjustments to reconcile change in net assets to net cash from operating activities:		
Noncash contributions of fixed assets	-	(850,000)
Noncash contribution of investments	(10,769)	
Noncash contributions of investment property	-	(259,357)
Unrealized (gain) loss on investments held for endowment	(343,087)	110,541
Unrealized gain on investments	(46)	-
(Gain) loss on investments held for endowment	(60,567)	155,371
Gain on sale of investment property	(39,247)	(25,234)
Gain on disposal of fixed assets	-	(78,280)
Depreciation expense	504,890	1,245,802
Changes in operating assets and liabilities:		
Accounts receivable	110,670	(1,813)
Pledges receivable	(3,035,000)	(50,000)
Inventory	18,733	(22,367)
Prepaid expenses	3,810	(4,586)
Accounts payable and accrued liabilities	(68,449)	145,871
Rental deposits	60,322	(11,926)
Net cash provided by operating activities	233,549	495,887
Cash flows from investing activities:		
Purchase of fixed assets	(67,042)	(860,299)
Proceeds from sale of fixed assets	-	360,335
Loss on subsidiary	-	527
Purchase of investment property	(591,147)	(501,911)
Proceeds from sale of investment property	168,445	254,033
Purchase of investments held for endowment	(558,800)	(599,114)
Proceeds from sale of investments held for endowment	708,900	575,868
Net cash used in investing activities	(339,644)	(770,561)
Cash flows from financing activities:		
Loan proceeds	600,000	546,365
Payments on notes payable	(218,445)	(262,843)
Net cash provided by financing activities	381,555	283,522
Net increase in cash and cash equivalents	275,460	8,848
Cash and cash equivalents, beginning of year	468,061	459,213
Cash and cash equivalents, end of year	\$ 743,521	\$ 468,061
Supplemental cash flow disclosures:		
Interest paid	\$ 48,358	\$ 27,813

The accompanying notes are an integral part of these combined financial statements.

GALVESTON HISTORICAL FOUNDATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

1. Organization and Nature of Operations

The combined financial statements of The Galveston Historical Foundation, Inc. (“GHF”) include GHF Endowment, Inc. (the “Endowment”), a corporation under common ownership, and Galveston Island Tours, Inc. (“GIT”), a wholly-owned subsidiary (collectively, the “Foundation”).

GHF was originally founded in 1871 as the Galveston Historical Society (the “Society”) and is Texas’ oldest historic preservation group. In 1954, the Society incorporated as a non-profit organization, as described in Section 501(c)(3) of the Internal Revenue Code (“IRC”), to become GHF. The mission of GHF is to preserve and revitalize the architectural, cultural and maritime heritage of Galveston island through community redevelopment, public education and historic preservation. The Foundation operates both museums and historic properties and works in the community to preserve the historic architecture and the cultural and maritime heritage of Galveston Island.

The Endowment was established in 1991 as a non-profit organization, as described in Section 501(c)(3) of the IRC, to operate for the exclusive and sole benefit of GHF. The Endowment holds and invests funds contributed for a permanent endowment and distributes the earnings from those funds, as determined by the Endowment’s Board of Directors, which is separate and apart from that of GHF. The directors of the Endowment are elected by the directors of the Foundation.

Galveston Island Tours, LLC (“GIT”) is a limited liability corporation organized under the laws of the State of Texas on April 7, 2004, and is a wholly owned subsidiary of GHF. GIT operates for the exclusive and sole benefit of GHF to market, organize and conduct tours of Galveston Island.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying combined financial statements of the Foundation have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) promulgated by the Financial Accounting Standards Board (“FASB”) related to financial statements of not-for-profit organizations. Accordingly, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. All significant intercompany accounts and transactions have been eliminated. The net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. As of June 30, 2017 and 2016, unrestricted net assets were \$14,656,343 and \$14,927,022, respectively.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that either expire by passage of time or can be fulfilled and removed by actions of the Board of Directors. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets. As of June 30, 2017 and 2016, temporarily restricted net assets were \$3,459,625 and \$96,657, respectively.

Permanently restricted net assets – Net assets subject to permanent donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Board of Directors. As of June 30, 2017 and 2016, permanently restricted net assets were \$2,328,097.

Use of Estimates

The preparation of the Foundation’s combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the 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. Actual results could differ from those estimates.

GALVESTON HISTORICAL FOUNDATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid short-term investments with original maturities of ninety days or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist primarily of obligations due to the Foundation from donors for contribution pledges and from vendors for hotel occupancy tax income. The Foundation uses the allowance method to determine uncollectable receivables. The allowance for doubtful accounts is regularly evaluated by management and is based on management's past experience with donors and vendors. Receivables are considered impaired if payments are not received in accordance with contractual terms. Account balances are charged against the allowance for doubtful accounts after all means for collection have been exhausted and the potential for recovery is considered remote. As of both June 30, 2017 and June 30, 2016, an allowance for doubtful accounts was not deemed necessary.

Pledges Receivable

Contributions are recognized when the donor makes a pledge to give to the Foundation that is, in substance, unconditional. The Foundation uses the allowance method to estimate uncollectible pledges receivable. The allowance is based on collection experience in prior years and management's analysis of specific promises made. As of both June 30, 2017 and June 30, 2016, an allowance for doubtful accounts was not deemed necessary.

Inventory

Inventory consists of items purchased for resale and is valued at the lower of cost or market using the first-in, first-out method.

Property and Equipment

Property and equipment are capitalized at acquisition cost. Donated property and equipment are recorded at their estimated fair value. Maintenance and repair costs of less than \$1,000, other than building restoration and renovation, are charged to expense as incurred.

The Foundation depreciates all classes of property and equipment using the straight-line method over their estimated useful lives, which range from three to 40 years.

Historical Treasures

Historical treasures are considered to have a historical value and are preserved by the Foundation. The Foundation has capitalized its historical treasures since its inception and items are capitalized at their fair value on the accession date. The Foundation periodically reviews these items for impairment. When an item is considered to be impaired, the decrease in value is reported in earnings as a realized investment loss and a new cost basis is established. For the years ended June 30, 2017 and 2016, no impairment losses were recorded on historical treasures.

Investment Properties Held For Sale

The Foundation acquires, through gift or purchase, certain property assets with the intent to preserve the historical integrity of these properties, consistent with the policy goals of the Foundation, prior to sale to third parties. The properties are carried at cost plus expenses necessary to prepare them for resale.

Impairment of Long-Lived Assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2017 and 2016, and in the opinion of management, there was no impairment. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

GALVESTON HISTORICAL FOUNDATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fair Value of Financial Instruments

Fair value estimates of financial instruments are based on relevant market information and may be subjective in nature and involve uncertainties and matters of significant judgment. The Foundation believes that the carrying value of its assets and liabilities approximates the fair value of such items. The Foundation does not hold or issue financial instruments for trading purposes.

Concentration of Credit and Market Risk

Financial instruments, which subject the Foundation to concentrations of credit risk, consist principally of cash, investments, and pledges receivable. The Foundation maintains its cash and investment balances with high quality financial institutions in the United States. At times, deposits with these financial institutions may exceed the Federal Depository Insurance Corporation limits; however, in monitoring this credit risk, the Foundation periodically evaluates the stability of these financial institutions and has not experienced any losses associated with its deposits.

As of June 30, 2017, approximately 97% of pledges receivable are from two donors. As of June 30, 2016, there were no material concentrations of pledge receivables.

Revenue and Support

Revenues from event income, admissions and activity fees, merchandise sales, and rental fee income are recognized at the time of sale, and membership dues are recognized upon receipt.

Contributions and grants are recorded as revenue at fair value when an unconditional commitment is received from a donor. Contributions and grants are reported as increases in unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor-imposed restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-imposed restriction has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions in the Statements of Activities. Donor-imposed restrictions whose restrictions are met within the same year as received are reported as unrestricted contributions.

Donations of Assets and Services

In accordance with FASB Accounting Standards Codification Topic 958-605, *Not-for-Profit Entities – Accounting for Contributions Received and Contributions Made*, the Foundation recognizes contributed services at their estimated fair value if the services received (a) create or enhance long-lived 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.

Donations of assets and services are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

During the years ended June 30, 2017 and 2016, included in contributions and grants on the combined statements of activities are non-cash donations of material, services, and other items of \$338,941 and \$460,820, respectively.

The Foundation receives a substantial amount of donated services from volunteers who provide management and program support during each fiscal year. No amounts for contributed services have been reflected in the accompanying financial statements as they did not meet the criteria for recognition required by U.S. GAAP. During the years ended June 30, 2017 and 2016, these volunteers donated approximately 23,372 and 27,546 hours, respectively, with an estimated value of \$564,205 and \$648,984, respectively.

GALVESTON HISTORICAL FOUNDATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated to program services, fundraising and administrative expenses based on the level of effort by employees.

Advertising Costs

The Foundation expenses advertising costs as they are incurred. Advertising expense for the years ended June 30, 2017 and 2016 was \$152,940 and \$122,341, respectively.

Uncertain Tax Positions

The Foundation is exempt from federal and state income taxes under IRC Section 501(c)(3), except for net income derived from unrelated business activities. The Foundation has a wholly-owned for-profit event and tour planning business which is subject to tax on unrelated business activity. At June 30, 2017 and 2016, the Foundation did not incur a tax liability on such unrelated business activity. Additionally, the Foundation operates three gift shops with income generated from merchandise sales which are subject to tax on unrelated business activity. At June 30, 2017 and 2016, the Foundation did not incur a tax liability on this unrelated business activity. The Foundation's most significant tax positions are its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business income tax. All significant tax positions have been considered by management. It has been determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities.

Recent Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which changes presentation and disclosure requirements for not-for-profit entities in order to provide more relevant information about the resources (and changes in those resources) to donors, grantors, creditors, and other users. The changes include more qualitative and quantitative requirements about its liquidity, financial performance, and cash flows. ASU No. 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early adoption is permitted. Management is currently evaluating the impact that adoption of ASU No. 2016-14 will have on the Foundation's financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under ASU No. 2016-02, lessor accounting is largely unchanged. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019 with early application permitted. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases expiring before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. Management is currently reviewing our various leases to identify those affected by ASU No. 2016-02.

Reclassifications

Certain prior year balances have been reclassified in order to conform to the current year presentation. Such reclassifications have no impact on net assets and changes in net assets as previously reported.

GALVESTON HISTORICAL FOUNDATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

3. Property and Equipment

As of June 30, 2017 and 2016, property and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Building structures and improvements	\$ 10,125,974	\$ 10,058,932
Equipment	1,835,715	1,835,715
Land	<u>659,000</u>	<u>659,000</u>
	12,620,689	12,553,647
Accumulated depreciation	<u>(5,790,371)</u>	<u>(5,285,481)</u>
Property and equipment, net	<u>\$ 6,830,318</u>	<u>\$ 7,268,166</u>

For the years ended June 30, 2017 and 2016, depreciation expense was \$504,890 and \$1,245,802, respectively.

During the year ended June 30, 2016, a certain asset was depreciated using a depreciable life of five years and accordingly, during the year ended June 30, 2016, included in depreciation expense was \$604,490 related to such asset. During the year ended June 30, 2017, management determined, through additional analysis of the asset, that 40 years is a more appropriate depreciable life of the asset. Thus, \$75,651 in depreciation expense was recorded during the year ended June 30, 2017 for such asset.

4. Investment Properties Held for Sale

As of June 30, 2017 and 2016, investment properties held for sale consists of the following:

<u>Property Location</u>	<u>Date Acquired</u>	<u>2017</u>	<u>2016</u>
3801 Winnie	5/30/2006	\$ 25,889	\$ 25,889
3916 Ball	8/11/2006	41,595	41,595
2123 M ½	8/31/2012	14,322	14,322
1806 Ave M ½	5/28/2014	13,324	9,238
2612 Ave M ½	12/18/2015	172,763	23,086
2616 Ave M ½	12/18/2015	-	23,087
2620 Ave M ½	12/18/2015	24,861	23,086
1715 Mechanic Street	12/22/2015	96,744	21,173
1719 Mechanic Street	12/22/2015	71,426	21,173
1011 36 th HOP House Gift Deed	3/16/2016	99,365	96,950
3624 Ave R ½ HOP House Gift Deed	3/16/2016	215,895	64,100
2107 Ave M ½ HOP House Gift Deed	4/22/2016	112,354	98,307
1723 Mechanic Street	6/30/2017	<u>35,417</u>	<u>-</u>
		<u>\$ 923,955</u>	<u>\$ 462,006</u>

During the year ended June 30, 2017, the following investment properties were sold:

<u>Property Location</u>	<u>Date of Sale</u>	<u>Sales Price</u>	<u>Carrying Value</u>	<u>Net Gain (Loss)</u>
2612 Ave M 1/2	2/17/2017	\$ 168,445	\$ 129,198	\$ 39,247
		<u>\$ 168,445</u>	<u>\$ 129,198</u>	<u>\$ 39,247</u>

During the year ended June 30, 2016, the following investment properties were sold:

<u>Property Location</u>	<u>Date of Sale</u>	<u>Sales Price</u>	<u>Carrying Value</u>	<u>Net Gain (Loss)</u>
1710 Ave M ½	10/9/2015	\$ 120,415	\$ 119,789	\$ 626
2123 Ave K	2/12/2016	<u>133,618</u>	<u>109,010</u>	<u>24,608</u>
		<u>\$ 254,033</u>	<u>\$ 228,799</u>	<u>\$ 25,234</u>

GALVESTON HISTORICAL FOUNDATION, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

5. Endowment Funds

FASB Accounting Standards Codification (“ASC”) No. 958-210-45-9, *Other Presentation Matters*, provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to the Texas Uniform Prudent Management of Institutional Funds Act (“TUPMIFA”). FASB No. 958-210-45-9 also requires additional disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to TUPMIFA.

The Foundation has determined that the Endowment’s permanently restricted net assets meet the definition of endowment funds under TUPMIFA. Since the Endowment Board of Directors’ designated amount resulted from an internal designation and is not donor restricted, it is classified and reported as unrestricted net assets in accordance with U.S. GAAP.

The Foundation’s Board of Trustees has interpreted the TUPMIFA as requiring 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 of this interpretation, the Foundation classifies as permanently restricted net assets (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 in permanently restricted net assets is classified as unrestricted net assets. Donor-restricted endowment funds do not include board-designated endowment funds. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the various funds, the purpose of the donor-restricted endowment funds, 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 Foundation, and the Foundation’s investment policies.

Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted investment spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to GHF by its endowment funds while also attempting to maintain the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve a steady, growing stream of income. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities and mutual funds, which are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of more than 5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Foundation has a policy to distribute endowment income to GHF in such amounts as the Board of Directors, in their sole discretion, may determine. Such distribution policy is currently 5% of its endowment funds. Income from endowments not distributed during the current period is classified as unrestricted net asset. No distribution of corpus is allowed except when a request is received from GHF, as approved by two-thirds of GHF’s voting Board of Trustee members, and three of the five Board of Directors of the Endowment. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds (many of which must be maintained in perpetuity because of donor-restrictions), and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal average rate annually, which is consistent with the Foundation’s objective to maintain the purchasing power of the endowment assets, as well as to provide additional real growth through new gifts and investment return.

GALVESTON HISTORICAL FOUNDATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

5. Endowment Funds, continued

Spending Policy, continued

As of June 30, 2017 and 2016, endowment fund net assets restricted by donors or designated by the Board of Directors of the Endowment, were as follows:

	Endowment Fund Net Assets at June 30, 2017			
	Unrestricted Board- Designated	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 10,079	\$ 2,328,097	\$ 2,338,176
Board-designated endowment funds	<u>1,380,948</u>	<u>-</u>	<u>-</u>	<u>1,380,948</u>
Total	<u>\$ 1,380,948</u>	<u>\$ 10,079</u>	<u>\$ 2,328,097</u>	<u>\$ 3,719,124</u>
Endowment net assets, beginning of year	\$ 1,120,274	\$ 10,079	\$ 2,328,097	\$ 3,458,450
Transfers	(171,785)	-	-	(171,785)
Investment income	82,478	-	-	82,478
Realized gain	29,050	-	-	29,050
Net appreciation	343,087	-	-	343,087
Net assets released from restrictions: Amounts appropriated for expenditures	<u>(22,156)</u>	<u>-</u>	<u>-</u>	<u>(22,156)</u>
Endowment net assets, end of year	<u>\$ 1,380,948</u>	<u>\$ 10,079</u>	<u>\$ 2,328,097</u>	<u>\$ 3,719,124</u>

	Endowment Fund Net Assets at June 30, 2016			
	Unrestricted Board- Designated	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 10,079	\$ 2,328,097	\$ 2,338,176
Board-designated endowment funds	<u>1,120,274</u>	<u>-</u>	<u>-</u>	<u>1,120,274</u>
Total	<u>\$ 1,120,274</u>	<u>\$ 10,079</u>	<u>\$ 2,328,097</u>	<u>\$ 3,458,450</u>
Endowment net assets, beginning of year	\$ 1,321,273	\$ 10,079	\$ 2,328,097	\$ 3,659,449
Transfers	(173,980)	-	-	(173,980)
Investment income	15,197	-	-	15,197
Realized gain	87,683	-	-	87,683
Net depreciation	(110,541)	-	-	(110,541)
Net assets released from restrictions: Amounts appropriated for expenditures	<u>(19,358)</u>	<u>-</u>	<u>-</u>	<u>(19,358)</u>
Endowment net assets, end of year	<u>\$ 1,120,274</u>	<u>\$ 10,079</u>	<u>\$ 2,328,097</u>	<u>\$ 3,458,450</u>

GALVESTON HISTORICAL FOUNDATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

6. Investments Held for Endowment Purposes

Investments held for endowment purposes represent assets held by the Endowment in bank trust departments and brokerage firms. As of June 30, 2017 and 2016, investments held for endowment purposes consist of the following:

	2017	2016
Mutual funds	\$ 2,642,123	\$ 2,315,451
Corporate and foreign bonds	221,543	326,478
Municipal bonds	637,044	605,227
	\$ 3,500,710	\$ 3,247,156

7. Fair Value Measurements

The FASB Accounting Standards Codification (“ASC”) 820-10, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

In determining fair value, the Foundation uses the market or income approach, depending on the nature of the investment. The market approach uses quoted prices and other relevant data based on market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount, with the measurement based on the value indicated by current market expectations about those future amounts.

Following is a description of the valuation methodology used for assets measured at fair value.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded. (Market approach)

Fixed income securities: Valued based on an evaluated price from a compilation of primarily observable market information or a broker quote in a non-active market. (Income approach)

GALVESTON HISTORICAL FOUNDATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

7. Fair Value Measurements, continued

Common stock: Valued at the closing price reported on the active market on which the individual securities are traded. (Market approach)

The following tables set forth by level, within the fair value hierarchy, the Foundation's investments at fair value, on a recurring basis, as of June 30, 2017 and 2016:

	Investments at Fair Value at June 30, 2017			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 2,642,123	\$ -	\$ -	\$ 2,642,122
Corporate and foreign bonds	-	221,543	-	221,543
Municipal bonds	-	637,044	-	637,044
Common stock	10,815	-	-	10,815
Total investments at fair value	\$ 2,652,938	\$ 858,587	\$ -	\$ 3,511,525

	Investments at Fair Value at June 30, 2016			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 2,315,451	\$ -	\$ -	\$ 2,315,451
Corporate and foreign bonds	326,478	-	-	326,478
Municipal bonds	605,227	-	-	605,227
Total investments at fair value	\$ 3,247,156	\$ -	\$ -	\$ 3,247,156

8. Notes Payable

Notes payable consists of financing arrangements for the purchase of property, vehicles and equipment. As of June 30, 2017 and 2016, notes payable consist of the following:

	2017	2016
Unsecured note payable to a third party, bearing no interest, not to be used for redevelopment purposes, originated in February 1980, callable at the discretion of the third party.	\$ 150,000	\$ 150,000
Note payable to a financial institution, bearing interest at a variable rate of 4.25%, interest is due and payable monthly, principal is due at maturity. The note was renewed effective December 2016, matures in October 2017, and is secured by property.	145,000	145,000
Note payable to a financial institution, bearing interest at a variable rate of 4.25%, interest is due and payable monthly, principal is due at maturity. The note was renewed effective August 2016, matures in June 2017, and is secured by property.	205,526	205,526
Revolving line of credit payable to a financial institution, bearing interest at a variable rate of 4.25%, interest is due and payable monthly, principal is due at maturity. The line of credit was renewed effective September 2016, matures in September 2017, and is secured by property.	100,000	50,000
Revolving line of credit payable to a financial institution, bearing interest at a variable rate of 4.25%, interest is due and payable monthly, principal is due at maturity. The line of credit was renewed effective October 2016, matures in November 2017, and is secured by property.	496,365	496,365

GALVESTON HISTORICAL FOUNDATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

8. Notes Payable, continued

Revolving line of credit payable to a financial institution, bearing interest at 4.00% per year, interest is due and payable quarterly, principal is due at maturity. The note matures in December 2017 and is secured by property.

	331,555	-
Less current maturities	1,428,446 <u>(1,278,446)</u>	1,046,891 <u>(896,891)</u>
Long-term portion	<u>\$ 150,000</u>	<u>\$ 150,000</u>

For the years ended June 30, 2017 and 2016, interest expense was \$36,717 and \$27,813, respectively.

9. Operating Leases

Effective January 1, 2014, the Foundation extended an agreement to lease a dock and certain property adjacent to the Barque Elissa in Galveston, Texas, for an additional 10 years, expiring on December 31, 2023. Lease payments are due monthly.

Effective June 1, 2013, the Foundation entered into a 36 month lease of 2,863 square feet of retail space in Galveston, Texas. The lease commenced on August 31, 2013 and expired on July 31, 2016.

Effective September 1, 2014, the Foundation entered into a 58 month lease of approximately 9,000 square feet of commercial space in Galveston, Texas, expiring on June 30, 2019. The Foundation has the option to extend the lease for an additional 60 months upon written request. Lease payments are due monthly.

Effective March 16, 2017, the Foundation entered into a 60 month lease of 1,787 square feet of commercial space in Galveston, Texas, that commenced on January 1, 2017 and expires on December 31, 2021. Base lease payments are due monthly and escalate annually over the term of the lease. Additional base rent, related to the Foundation's pro rata share of taxes and other land and building costs, is due monthly.

For the years ended June 30, 2017 and 2016, lease expense was \$101,458 and \$59,328, respectively.

Future minimum lease payments under the operating leases are as follows:

<u>For the Year Ending June 30,</u>	
2018	87,266
2019	88,160
2020	53,948
2021	55,292
2022	35,635
Thereafter	<u>38,825</u>
	<u>\$ 359,126</u>

10. Compensated Absences

Employees earn vacation pay which may be carried over until December 31 following the fiscal year-end. One week per year of unused sick leave may be carried forward up to a maximum of five weeks. The Foundation's policy is to recognize these costs when actually paid.

GALVESTON HISTORICAL FOUNDATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

11. Hotel Occupancy Tax Allocation

During the years ended June 30, 2017 and 2016, the Foundation was the recipient of hotel occupancy tax allocated from the City of Galveston totaling \$413,212 and \$366,118, respectively, and was used for the following expenditures:

	2017	2016
Advertising and marketing	\$ 128,096	\$ 113,497
Special events	285,116	252,621
	\$ 413,212	\$ 366,118

12. Restricted Net Assets

Permanently Restricted Net Assets

Permanently restricted net assets are donor-restricted endowment funds whose investment earnings are distributed to GHF in an amount determined by the Endowment's Board of Directors. For the years ended June 30, 2017 and 2016, permanently restricted net assets were restricted for the following purpose:

	2017	2016
General endowment to fulfill the purposes of GHF	\$ 2,328,097	\$ 2,328,097

Temporarily Restricted Net Assets

Temporarily restricted net assets are donor-restricted contributions for a specified program or project. Temporarily restricted net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by satisfaction of other restrictions specified by the donors. For the years ended June 30, 2017 and 2016, temporarily restricted net assets were restricted for the following programs or projects:

	2017	2016
GHF Endowment, Inc.		
Customs House maintenance	\$ 10,079	\$ 10,079
Galveston Historical Foundation, Inc.		
Galveston History Project	3,400,000	50,000
Paint Partnership, Pals and Plus	13,470	3,936
Gartein Verein maintenance	36,076	32,642
	\$ 3,459,625	\$ 96,657

Unrestricted Net Assets

Unrestricted net assets are contributions without donor restrictions. The Endowment's Boards of Directors have designated a portion of unrestricted net assets to be used for the following purpose:

	2017	2016
GHF Endowment, Inc.:		
Designated for future benefit of GHF, as appropriated by the Endowment's Board of Directors	\$ 1,380,948	\$ 1,120,274

GALVESTON HISTORICAL FOUNDATION, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

13. Ashton Villa, St. Joseph Church, Garten Verein and Bishop's Palace

The Foundation manages several historic properties owned by the City of Galveston and the Catholic Diocese of Galveston-Houston as detailed below:

- Ashton Villa, a house museum used in operations, is owned by the City of Galveston, and is leased from the City for \$10 annually.
- St. Joseph Church is operated under a long-term agreement with its owner, the Catholic Archdiocese of Galveston-Houston.
- Garten Verein Pavilion is used for rentals and special events. It is leased from its owner, the City of Galveston, for \$10 annually.

Maintenance of these properties is consistent with the purpose of the Foundation. Consequently, contributions for restoration and maintenance of these properties are treated as temporarily restricted contributions, and related expenditures are recorded as program expenses

14. Subsequent Events

The Foundation has evaluated subsequent events through January 16, 2018, which is the date the financial statements were available to be issued, and has concluded that there were no significant events requiring additional disclosure in the financial statements.

SUPPLEMENTAL SCHEDULES

GALVESTON HISTORICAL FOUNDATION, INC.
COMBINING STATEMENTS OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Galveston Historical Foundation, Inc.</u>	<u>GHF Endowment Inc.</u>	<u>Galveston Island Tours</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 631,181	\$ 108,414	\$ 3,926	\$ -	\$ 743,521
Receivables:					
Pledges	3,185,000	-	-	-	3,185,000
Hotel occupancy tax	100,116	-	-	-	100,116
Other	5,456	-	-	-	5,456
Inventory	253,547	-	-	-	253,547
Prepaid expenses	776	-	-	-	776
Total current assets	<u>4,176,076</u>	<u>108,414</u>	<u>3,926</u>	<u>-</u>	<u>4,288,416</u>
Building structures and improvements	10,120,614	-	5,360	-	10,125,974
Equipment	1,835,715	-	-	-	1,835,715
Land	659,000	-	-	-	659,000
	<u>12,615,329</u>	<u>-</u>	<u>5,360</u>	<u>-</u>	<u>12,620,689</u>
Accumulated depreciation	(5,785,011)	-	(5,360)	-	(5,790,371)
Total property and equipment	<u>6,830,318</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,830,318</u>
Other assets:					
Historical treasures	6,578,306	-	-	-	6,578,306
Investments held for endowment purposes	-	3,500,710	-	-	3,500,710
Investment properties for sale	923,955	-	-	-	923,955
Investment in common stock	10,815	-	-	-	10,815
Notes receivable	-	110,000	-	(110,000)	-
Total other assets	<u>7,513,076</u>	<u>3,610,710</u>	<u>-</u>	<u>(110,000)</u>	<u>11,013,786</u>
Total assets	<u>\$ 18,519,470</u>	<u>\$ 3,719,124</u>	<u>\$ 3,926</u>	<u>\$ (110,000)</u>	<u>\$ 22,132,520</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued liabilities	120,886	-	1,833	-	122,719
Notes payable, current	1,278,446	-	-	-	1,278,446
Total current liabilities	<u>1,399,332</u>	<u>-</u>	<u>1,833</u>	<u>-</u>	<u>1,401,165</u>
Other liabilities:					
Deposits	137,290	-	-	-	137,290
Notes payable, long-term	260,000	-	-	(110,000)	150,000
Total other liabilities	<u>397,290</u>	<u>-</u>	<u>-</u>	<u>(110,000)</u>	<u>287,290</u>
Total liabilities	<u>1,796,622</u>	<u>-</u>	<u>1,833</u>	<u>(110,000)</u>	<u>1,688,455</u>
Net assets:					
Unrestricted:					
Undesignated	13,273,302	-	2,093	-	13,275,395
Designated by Board of Directors	-	1,380,948	-	-	1,380,948
Temporarily restricted	3,449,546	10,079	-	-	3,459,625
Permanently restricted	-	2,328,097	-	-	2,328,097
Total net assets	<u>16,722,848</u>	<u>3,719,124</u>	<u>2,093</u>	<u>-</u>	<u>20,444,065</u>
Total liabilities and net assets	<u>\$ 18,519,470</u>	<u>\$ 3,719,124</u>	<u>\$ 3,926</u>	<u>\$ (110,000)</u>	<u>\$ 22,132,520</u>

See Independent Auditor's Report

GALVESTON HISTORICAL FOUNDATION, INC.
COMBINING STATEMENTS OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Galveston Historical Foundation, Inc.</u>	<u>GHF Endowment Inc.</u>	<u>Galveston Island Tours</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 364,926	\$ 101,294	\$ 1,841	\$ -	\$ 468,061
Receivables:					
Pledges	150,000	-	-	-	150,000
Hotel occupancy tax	109,585	-	-	-	109,585
Other	106,657	-	-	-	106,657
Inventory	272,280	-	-	-	272,280
Prepaid expenses	4,586	-	-	-	4,586
Total current assets	<u>1,008,034</u>	<u>101,294</u>	<u>1,841</u>	<u>-</u>	<u>1,111,169</u>
Building structures and improvements	10,053,572	-	5,360	-	10,058,932
Equipment	1,835,715	-	-	-	1,835,715
Land	659,000	-	-	-	659,000
	<u>12,548,287</u>	<u>-</u>	<u>5,360</u>	<u>-</u>	<u>12,553,647</u>
Accumulated depreciation	(5,280,121)	-	(5,360)	-	(5,285,481)
Total property and equipment	<u>7,268,166</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,268,166</u>
Other assets:					
Historical treasures	6,578,306	-	-	-	6,578,306
Investments held for endowment purposes	-	3,247,156	-	-	3,247,156
Investment properties for sale	462,006	-	-	-	462,006
Notes receivable	-	110,000	-	(110,000)	-
Total other assets	<u>7,040,312</u>	<u>3,357,156</u>	<u>-</u>	<u>(110,000)</u>	<u>10,287,468</u>
Total assets	<u>\$ 15,316,512</u>	<u>\$ 3,458,450</u>	<u>\$ 1,841</u>	<u>\$ (110,000)</u>	<u>\$ 18,666,803</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued liabilities	189,335	-	1,833	-	191,168
Notes payable, current	896,891	-	-	-	896,891
Total current liabilities	<u>1,086,226</u>	<u>-</u>	<u>1,833</u>	<u>-</u>	<u>1,088,059</u>
Other liabilities:					
Deposits	76,968	-	-	-	76,968
Notes payable, long-term	260,000	-	-	(110,000)	150,000
Total other liabilities	<u>336,968</u>	<u>-</u>	<u>-</u>	<u>(110,000)</u>	<u>226,968</u>
Total liabilities	<u>1,423,194</u>	<u>-</u>	<u>1,833</u>	<u>(110,000)</u>	<u>1,315,027</u>
Net assets:					
Unrestricted:					
Undesignated	13,806,740	-	8	-	13,806,748
Designated by Board of Directors	-	1,120,274	-	-	1,120,274
Temporarily restricted	86,578	10,079	-	-	96,657
Permanently restricted	-	2,328,097	-	-	2,328,097
Total net assets	<u>13,893,318</u>	<u>3,458,450</u>	<u>8</u>	<u>-</u>	<u>17,351,776</u>
Total liabilities and net assets	<u>\$ 15,316,512</u>	<u>\$ 3,458,450</u>	<u>\$ 1,841</u>	<u>\$ (110,000)</u>	<u>\$ 18,666,803</u>

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GALVESTON HISTORICAL FOUNDATION, INC.
COMBINING STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Galveston Historical Foundation			GHF Endowment, Inc.				Galveston Island Tours		Eliminations	Total
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Total		
Support and revenue:											
Contributions and grants	\$ 825,396	\$ 3,941,631	\$ 4,767,027	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,767,027
Event income	579,785	-	579,785	-	-	-	-	-	-	-	579,785
Admissions and activity fees	1,257,033	-	1,257,033	-	-	-	-	-	-	-	1,257,033
Merchandise sales	705,962	-	705,962	-	-	-	-	-	-	-	705,962
Membership dues	160,224	-	160,224	-	-	-	-	-	-	-	160,224
Rental fee income	398,174	-	398,174	-	-	-	-	5,629	5,629	-	403,803
Other	105,746	-	105,746	-	-	-	-	-	-	-	105,746
Investment income	471	-	471	82,478	-	-	82,478	-	-	-	82,949
Realized gain (loss) on endowment funds	-	-	-	29,050	-	-	29,050	-	-	-	29,050
Realized gain (loss) on sale property and fixed assets	39,247	-	39,247	-	-	-	-	-	-	-	39,247
Unrealized appreciation (depreciation) on investments	-	-	-	343,087	-	-	343,087	-	-	-	343,087
Income distributions	171,785	-	171,785	(171,785)	-	-	(171,785)	-	-	-	-
Total support and Revenue	4,243,823	3,941,631	8,185,454	282,830	-	-	282,830	5,629	5,629	-	8,473,913
Net assets released from restrictions	578,663	(578,663)	-	-	-	-	-	-	-	-	-
Total	4,822,486	3,362,968	8,185,454	282,830	-	-	282,830	5,629	5,629	-	8,473,913
Expenses:											
Program services:											
Events	780,803	-	780,803	-	-	-	-	-	-	-	780,803
Preservation services	519,364	-	519,364	-	-	-	-	-	-	-	519,364
Museums	83,990	-	83,990	-	-	-	-	-	-	-	83,990
Texas Seaport Museum	1,056,554	-	1,056,554	-	-	-	-	-	-	-	1,056,554
Seagull	177,927	-	177,927	-	-	-	-	-	-	-	177,927
Ashton Villa	166,740	-	166,740	-	-	-	-	-	-	-	166,740
Garten Verein	188,930	-	188,930	-	-	-	-	-	-	-	188,930
Bishop's Palace	662,082	-	662,082	-	-	-	-	-	-	-	662,082
Other historical properties	158,783	-	158,783	-	-	-	-	-	-	-	158,783
Strand retail	245,268	-	245,268	-	-	-	-	-	-	-	245,268
Galveston Island Tours	-	-	-	-	-	-	-	3,544	3,544	-	3,544
Total program services	4,040,441	-	4,040,441	-	-	-	-	3,544	3,544	-	4,043,985
Supporting services:											
Management and general	826,318	-	826,318	22,156	-	-	22,156	-	-	-	848,474
Membership fundraising	11,024	-	11,024	-	-	-	-	-	-	-	11,024
Marketing	478,141	-	478,141	-	-	-	-	-	-	-	478,141
Total supporting services	1,315,483	-	1,315,483	22,156	-	-	22,156	-	-	-	1,337,639
Total expenses	5,355,924	-	5,355,924	22,156	-	-	22,156	3,544	3,544	-	5,381,624
Changes in net assets	(533,438)	3,362,968	2,829,530	260,674	-	-	260,674	2,085	2,085	-	3,092,289
Net assets, beginning of year	13,806,740	86,578	13,893,318	1,120,274	10,079	2,328,097	3,458,450	8	8	-	17,351,776
Net assets, end of year	\$ 13,273,302	\$ 3,449,546	\$ 16,722,848	\$ 1,380,948	\$ 10,079	\$ 2,328,097	\$ 3,719,124	\$ 2,093	\$ 2,093	\$ -	\$ 20,444,065

See Independent Auditor's Report

GALVESTON HISTORICAL FOUNDATION, INC.
COMBINING STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Galveston Historical Foundation			GHF Endowment, Inc.				Galveston Island Tours		Eliminations	Total
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Total		
Support and revenue:											
Contributions and grants	\$ 2,694,264	\$ 569,029	\$ 3,263,293	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,263,293
Event income	780,382	-	780,382	-	-	-	-	-	-	-	780,382
Admissions and activity fees	1,168,633	-	1,168,633	-	-	-	-	-	-	-	1,168,633
Merchandise sales	794,518	-	794,518	-	-	-	-	-	-	-	794,518
Membership dues	168,684	-	168,684	-	-	-	-	-	-	-	168,684
Rental fee income	392,956	-	392,956	-	-	-	-	9,649	9,649	-	402,605
Other	149,833	-	149,833	-	-	-	-	-	-	-	149,833
Investment income	73	-	73	15,196	-	-	15,196	-	-	-	15,269
Realized gain (loss) on endowment funds	-	-	-	87,683	-	-	87,683	-	-	-	87,683
Realized gain (loss) on sale property and fixed assets	20,390	-	20,390	-	-	-	-	-	-	-	20,390
Unrealized appreciation (depreciation) on investments	-	-	-	(110,541)	-	-	(110,541)	-	-	-	(110,541)
Income distributions	173,980	-	173,980	(173,980)	-	-	(173,980)	-	-	-	-
Total support and Revenue	<u>6,343,713</u>	<u>569,029</u>	<u>6,912,742</u>	<u>(181,642)</u>	<u>-</u>	<u>-</u>	<u>(181,642)</u>	<u>9,649</u>	<u>9,649</u>	<u>-</u>	<u>6,740,749</u>
Net assets released from restrictions	1,088,508	(1,088,508)	-	-	-	-	-	-	-	-	-
Total	<u>7,432,221</u>	<u>(519,479)</u>	<u>6,912,742</u>	<u>(181,642)</u>	<u>-</u>	<u>-</u>	<u>(181,642)</u>	<u>9,649</u>	<u>9,649</u>	<u>-</u>	<u>6,740,749</u>
Expenses:											
Program services:											
Events	886,653	-	886,653	-	-	-	-	-	-	-	886,653
Preservation services	617,063	-	617,063	-	-	-	-	-	-	-	617,063
Museums	90,194	-	90,194	-	-	-	-	-	-	-	90,194
Texas Seaport Museum	1,350,994	-	1,350,994	-	-	-	-	-	-	-	1,350,994
Seagull	226,584	-	226,584	-	-	-	-	-	-	-	226,584
Ashton Villa	199,198	-	199,198	-	-	-	-	-	-	-	199,198
Garten Verein	176,749	-	176,749	-	-	-	-	-	-	-	176,749
Bishop's Palace	1,157,729	-	1,157,729	-	-	-	-	-	-	-	1,157,729
Other historical properties	137,760	-	137,760	-	-	-	-	-	-	-	137,760
Strand retail	210,905	-	210,905	-	-	-	-	-	-	-	210,905
Galveston Island Tours	-	-	-	-	-	-	-	10,684	10,684	-	10,684
Total program services	<u>5,053,829</u>	<u>-</u>	<u>5,053,829</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,684</u>	<u>10,684</u>	<u>-</u>	<u>5,064,513</u>
Supporting services:											
Management and general	970,665	-	970,665	19,356	-	-	19,356	-	-	-	990,021
Membership fundraising	12,048	-	12,048	-	-	-	-	-	-	-	12,048
Marketing	532,302	-	532,302	-	-	-	-	-	-	-	532,302
Total supporting services	<u>1,515,015</u>	<u>-</u>	<u>1,515,015</u>	<u>19,356</u>	<u>-</u>	<u>-</u>	<u>19,356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,534,371</u>
Total expenses	<u>6,568,844</u>	<u>-</u>	<u>6,568,844</u>	<u>19,356</u>	<u>-</u>	<u>-</u>	<u>19,356</u>	<u>10,684</u>	<u>10,684</u>	<u>-</u>	<u>6,598,884</u>
Changes in net assets	863,377	(519,479)	343,898	(200,998)	-	-	(200,998)	(1,035)	(1,035)	-	141,865
Net assets, beginning of year	12,943,363	606,057	13,549,420	1,321,272	10,079	2,328,097	3,659,448	1,043	1,043	-	17,209,911
Net assets, end of year	<u>\$ 13,806,740</u>	<u>\$ 86,578</u>	<u>\$ 13,893,318</u>	<u>\$ 1,120,274</u>	<u>\$ 10,079</u>	<u>\$ 2,328,097</u>	<u>\$ 3,458,450</u>	<u>\$ 8</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 17,351,776</u>

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GALVESTON HISTORICAL FOUNDATION, INC.
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Galveston Historical Foundation, Inc.</u>	<u>GHF Endowment Inc.</u>	<u>Galveston Island Tours</u>	<u>Total</u>
Cash flows from operating activities:				
Change in net assets	\$ 2,829,530	\$ 260,674	\$ 2,085	\$ 3,092,289
Adjustments to reconcile change in net assets to net cash from operating activities:				
Noncash contribution of investments	(10,769)	-	-	(10,769)
Unrealized gain on investments held for endowment	-	(343,087)	-	(343,087)
Unrealized gain on investments	(46)	-	-	(46)
Gain on investments held for endowment	-	(60,567)	-	(60,567)
Gain on sale of investment property	(39,247)	-	-	(39,247)
Depreciation expense	504,890	-	-	504,890
Changes in operating assets and liabilities:				-
Accounts receivable	110,670	-	-	110,670
Pledges receivable	(3,035,000)	-	-	(3,035,000)
Inventory	18,733	-	-	18,733
Prepaid expenses	3,810	-	-	3,810
Accounts payable and accrued liabilities	(68,449)	-	-	(68,449)
Rental deposits	60,322	-	-	60,322
Net cash provided by (used in) operating activities	<u>374,444</u>	<u>(142,980)</u>	<u>2,085</u>	<u>233,549</u>
Cash flows from investing activities:				
Purchase of fixed assets	(67,042)	-	-	(67,042)
Purchase of investment property	(591,147)	-	-	(591,147)
Proceeds from sale of investment property	168,445	-	-	168,445
Purchase of investments held for endowment	-	(558,800)	-	(558,800)
Proceeds from sale of investments held for endowment	-	708,900	-	708,900
Net cash provided by (used in) investing activities	<u>(489,744)</u>	<u>150,100</u>	<u>-</u>	<u>(339,644)</u>
Cash flows from financing activities:				
Loan proceeds	600,000	-	-	600,000
Payments on notes payable	(218,445)	-	-	(218,445)
Net cash provided by financing activities	<u>381,555</u>	<u>-</u>	<u>-</u>	<u>381,555</u>
Net increase in cash and cash equivalents	266,255	7,120	2,085	275,460
Cash and cash equivalents, beginning of year	<u>364,926</u>	<u>101,294</u>	<u>1,841</u>	<u>468,061</u>
Cash and cash equivalents, end of year	<u>\$ 631,181</u>	<u>\$ 108,414</u>	<u>\$ 3,926</u>	<u>\$ 743,521</u>
Supplemental cash flow disclosures:				
Interest paid	<u>\$ 48,358</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,358</u>

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GALVESTON HISTORICAL FOUNDATION, INC.
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Galveston Historical Foundation, Inc.</u>	<u>GHF Endowment Inc.</u>	<u>Galveston Island Tours</u>	<u>Total</u>
Cash flows from operating activities:				
Change in net assets	\$ 343,898	\$ (200,998)	\$ (1,035)	\$ 141,865
Adjustments to reconcile change in net assets to net cash from operating activities:				
Noncash contributions of fixed assets	(850,000)	-	-	(850,000)
Noncash contributions of investment property	(259,357)	-	-	(259,357)
Unrealized loss on investments held for endowment	-	110,541	-	110,541
Loss on investments held for endowment	-	155,371	-	155,371
Gain on sale of investment property	(25,234)	-	-	(25,234)
Gain on disposal of fixed assets	(78,280)	-	-	(78,280)
Depreciation expense	1,245,802	-	-	1,245,802
Changes in operating assets and liabilities:				
Accounts receivable	(1,813)	-	-	(1,813)
Pledges receivable	(50,000)	-	-	(50,000)
Inventory	(22,367)	-	-	(22,367)
Prepaid expenses	(4,586)	-	-	(4,586)
Accounts payable and accrued liabilities	145,218	-	653	145,871
Rental deposits	(11,926)	-	-	(11,926)
Net cash provided by (used in) operating activities	<u>431,355</u>	<u>64,914</u>	<u>(382)</u>	<u>495,887</u>
Cash flows from investing activities:				
Purchase of fixed assets	(860,299)	-	-	(860,299)
Proceeds from sale of fixed assets	360,335	-	-	360,335
Loss on subsidiary	-	-	527	527
Purchase of investment property	(501,911)	-	-	(501,911)
Proceeds from sale of investment property	254,033	-	-	254,033
Purchase of investments held for endowment	-	(599,114)	-	(599,114)
Proceeds from sale of investments held for endowment	-	575,868	-	575,868
Net cash provided by (used in) investing activities	<u>(747,842)</u>	<u>(23,246)</u>	<u>527</u>	<u>(770,561)</u>
Cash flows from financing activities:				
Loan proceeds	546,365	-	-	546,365
Payments on notes payable	(262,843)	-	-	(262,843)
Net cash provided by financing activities	<u>283,522</u>	<u>-</u>	<u>-</u>	<u>283,522</u>
Net increase (decrease) in cash and cash equivalents	(32,965)	41,668	145	8,848
Cash and cash equivalents, beginning of year	<u>397,891</u>	<u>59,626</u>	<u>1,696</u>	<u>459,213</u>
Cash and cash equivalents, end of year	<u>\$ 364,926</u>	<u>\$ 101,294</u>	<u>\$ 1,841</u>	<u>\$ 468,061</u>
Supplemental cash flow disclosures:				
Interest paid	<u>\$ 27,813</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,813</u>

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GALVESTON HISTORICAL FOUNDATION, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services					
	Events	Preservation Services	Museums	Texas Seaport Museum	Seagull	Ashton Villa
Compensation and related:						
Salaries and wages	\$ 152,000	\$ 295,819	\$ 45,150	\$ 267,612	\$ 108,686	\$ 50,931
Payroll taxes	11,869	22,875	3,337	22,004	9,453	4,343
Employee benefits	17,634	36,188	20,142	30,775	3,749	12,367
Travel and staff development	2,348	3,732	5,199	1,558	334	-
Cost of sales	-	6,631	-	137,432	-	-
Office operation:						
Office supplies	580	811	713	6,717	-	125
Postage	2,943	206	216	46	-	-
Printing	5,299	23	-	43	-	-
Telephone	-	2,065	-	4,690	-	951
Computer expenses	-	1,526	-	4,630	-	-
Dues and publications	6,238	262	319	-	326	-
Bank and credit card fees	-	3,288	-	18,618	-	-
Professional fees	-	20,233	3,345	4,273	170	-
Occupancy:						
Utilities and services	-	4,705	-	28,540	130	8,689
Lease payments	-	36,000	-	65,458	5,292	-
Rentals	-	325	-	-	-	6,800
Advertising	-	74	-	-	-	-
Development and entertainment	-	-	420	825	-	-
Insurance	-	20,287	-	138,934	17,050	47,341
Repairs and maintenance	-	11,370	-	56,309	31,573	10,334
Miscellaneous	-	-	-	-	-	-
Special projects:						
Special projects	35,836	21,510	1,166	81,823	1,164	-
Special projects - restricted	-	-	2,468	-	-	-
Commissions and royalties	-	-	-	9,255	-	-
Dickens festival	328,807	-	1,515	-	-	-
Homes tour	217,249	-	-	-	-	-
Museum collection	-	-	-	7,453	-	-
Loan interest	-	-	-	-	-	-
Investment fees	-	-	-	-	-	-
Depreciation	-	-	-	113,429	-	24,809
Program expenses	-	31,434	-	56,130	-	50
Total functional expenses	\$ 780,803	\$ 519,364	\$ 83,990	\$ 1,056,554	\$ 177,927	\$ 166,740

GALVESTON HISTORICAL FOUNDATION, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services					Total Program Services
	Garten Verein	Bishops Palace	Other Historical Properties	Strand Retail	Galveston Island Tours	
Compensation and related:						
Salaries and wages	\$ 56,495	\$ 211,533	\$ 188	\$ 37,260	\$ -	\$ 1,225,674
Payroll taxes	4,034	17,176	14	3,860	-	98,965
Employee benefits	1,105	9,534	4	-	-	131,498
Travel and staff development	-	-	-	-	-	13,171
Cost of sales	-	111,501	-	63,355	-	318,919
Office operation:						
Office supplies	-	6,403	-	3,434	-	18,783
Postage	-	108	-	-	-	3,519
Printing	-	-	-	-	-	5,365
Telephone	1,663	2,955	2,858	5,033	752	20,967
Computer expenses	-	1,246	-	995	638	9,035
Dues and publications	-	6,382	-	-	-	13,527
Bank and credit card fees	-	14,964	-	3,585	87	40,542
Professional fees	-	-	-	-	1,450	29,471
Occupancy:						
Utilities and services	49,130	19,792	34,838	13,605	-	159,429
Lease payments	-	-	-	17,577	-	124,327
Rentals	11,188	-	4,490	-	-	22,803
Advertising	-	-	-	972	114	1,160
Development and entertainment	-	-	-	-	-	1,245
Insurance	23,836	40,941	17,868	62,188	-	368,445
Repairs and maintenance	3,871	13,766	17,449	32,555	451	177,678
Miscellaneous	-	-	-	-	52	52
Special projects:						
Special projects	-	732	-	849	-	143,080
Special projects - restricted	-	-	-	-	-	2,468
Commissions and royalties	-	-	-	-	-	9,255
Dickens festival	-	1,300	-	-	-	331,622
Homes tour	-	-	-	-	-	217,249
Museum collection	-	106	-	-	-	7,559
Loan interest	-	-	20,165	-	-	20,165
Investment fees	-	-	-	-	-	-
Depreciation	12,608	165,383	49,243	-	-	365,472
Program expenses	25,000	38,260	11,666	-	-	162,540
Total functional expenses	\$ 188,930	\$ 662,082	\$ 158,783	\$ 245,268	\$ 3,544	\$ 4,043,985

See Independent Auditor's Report

GALVESTON HISTORICAL FOUNDATION, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Supporting Services			Total Supporting Services	Total Expenses 2017
	Management and General	Member Services	Marketing		
Compensation and related:					
Salaries and wages	\$ 357,553	\$ -	\$ -	\$ 357,553	\$ 1,583,227
Payroll taxes	26,684	-	-	26,684	125,649
Employee benefits	47,255	-	-	47,255	178,753
Travel and staff development	6,373	-	-	6,373	19,544
Cost of sales	1,626	-	-	1,626	320,545
Office operation:					
Office supplies	5,720	24	-	5,744	24,527
Postage	11,425	2,943	19,503	33,871	37,390
Printing	21,116	-	28,211	49,327	54,692
Telephone	11,159	-	-	11,159	32,126
Computer expenses	17,354	-	-	17,354	26,389
Dues and publications	820	-	-	820	14,347
Bank and credit card fees	22,606	-	-	22,606	63,148
Professional fees	44,641	-	-	44,641	74,112
Occupancy:					
Utilities and services	25,114	-	-	25,114	184,543
Lease payments	-	-	-	-	124,327
Rentals	-	-	-	-	22,803
Advertising	3,455	-	148,325	151,780	152,940
Development and entertainment	-	-	265,644	265,644	266,889
Insurance	34,223	-	-	34,223	402,668
Repairs and maintenance	28,134	-	-	28,134	205,812
Miscellaneous	5,090	-	-	5,090	5,142
Special projects:					
Special projects	-	8,057	16,458	24,515	167,595
Special projects - restricted	-	-	-	-	2,468
Commissions and royalties	-	-	-	-	9,255
Dickens festival	-	-	-	-	331,622
Homes tour	-	-	-	-	217,249
Museum collection	-	-	-	-	7,559
Loan interest	16,552	-	-	16,552	36,717
Investment fees	22,156	-	-	22,156	22,156
Depreciation	139,418	-	-	139,418	504,890
Program expenses	-	-	-	-	162,540
Total functional expenses	\$ 848,474	\$ 11,024	\$ 478,141	\$ 1,337,639	\$ 5,381,624

See Independent Auditor's Report