

HOLOCAUST MUSEUM HOUSTON

Consolidated Financial Statements  
and Supplemental Schedules

June 30, 2013 and 2012  
*(With Independent Auditors' Report Thereon)*

**Insight. Oversight. Foresight.<sup>SM</sup>**

 **DoerenMayhew**  
CPAs AND ADVISORS

# HOLOCAUST MUSEUM HOUSTON

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
Holocaust Museum Houston and  
The Holocaust Museum Foundation, Inc.:

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Holocaust Museum Houston and The Houston Holocaust Museum Foundation, Inc., which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Holocaust Museum Houston and The Houston Holocaust Museum Foundation, Inc. as of June 30, 2013 and 2012, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and consolidating statement of activities and changes in net assets as of and for the year ended June 30, 2013 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position or changes in net assets of the individual entities. 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



Houston, Texas  
February 5, 2014

# HOLOCAUST MUSEUM HOUSTON

## Consolidated Statements of Financial Position June 30, 2013 and 2012

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 494,991	\$ 559,312
Pledges receivable	317,550	253,449
Prepays and other assets	165,350	168,198
Investments	8,122,649	7,274,954
Property and equipment, net	5,689,678	5,787,280
Total assets	<u>\$ 14,790,218</u>	<u>\$ 14,043,193</u>
 <b><u>Liabilities and Net Assets</u></b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 395,022	\$ 227,905
Deferred revenue	-	2,951
Note payable	572,115	572,115
Total liabilities	<u>967,137</u>	<u>802,971</u>
Net assets:		
Unrestricted	11,157,347	11,188,396
Temporarily restricted	1,139,453	789,427
Permanently restricted	1,526,281	1,262,399
Total net assets	<u>13,823,081</u>	<u>13,240,222</u>
Total liabilities and net assets	<u>\$ 14,790,218</u>	<u>\$ 14,043,193</u>

See accompanying notes to consolidated financial statements.

**HOLOCAUST MUSEUM HOUSTON**

**Consolidated Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Contributions	\$ 926,632	\$ 498,204	\$ 263,882	\$ 1,688,718
Federal grants	104,976	-	-	104,976
Membership fees	331,334	-	-	331,334
Special events, net (revenues of \$1,373,848 less expenses of \$293,921)	1,079,927	-	-	1,079,927
Book sales	108,076	-	-	108,076
Rental and other income	40,607	-	-	40,607
Investment income, net	594,584	167,717	-	762,301
Net assets released from restrictions	315,895	(315,895)	-	-
Total public support and revenues	<u>3,502,031</u>	<u>350,026</u>	<u>263,882</u>	<u>4,115,939</u>
Expenses:				
Program services	1,268,533	-	-	1,268,533
Management and general	1,779,847	-	-	1,779,847
Fundraising	484,700	-	-	484,700
Total expenses	<u>3,533,080</u>	<u>-</u>	<u>-</u>	<u>3,533,080</u>
Change in net assets	(31,049)	350,026	263,882	582,859
Net assets, beginning of year	<u>11,188,396</u>	<u>789,427</u>	<u>1,262,399</u>	<u>13,240,222</u>
Net assets, end of year	<u>\$ 11,157,347</u>	<u>\$ 1,139,453</u>	<u>\$ 1,526,281</u>	<u>\$ 13,823,081</u>

See accompanying notes to consolidated financial statements.

**HOLOCAUST MUSEUM HOUSTON**

**Consolidated Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Contributions	\$ 882,732	\$ 443,766	\$ 118,000	\$ 1,444,498
Federal grants	34,994	-	-	34,994
Membership fees	315,284	-	-	315,284
Special events, net (revenues of \$1,666,574 less expenses of \$384,162)	1,282,412	-	-	1,282,412
Book sales	26,783	-	-	26,783
Rental and other income	49,182	-	-	49,182
Investment income, net	92,566	33,143	821	126,530
Net assets released from restrictions	393,278	(393,278)	-	-
Total public support and revenues	<u>3,077,231</u>	<u>83,631</u>	<u>118,821</u>	<u>3,279,683</u>
Expenses:				
Program services	1,542,235	-	-	1,542,235
Management and general	1,243,517	-	-	1,243,517
Fundraising	476,033	-	-	476,033
Total expenses	<u>3,261,785</u>	<u>-</u>	<u>-</u>	<u>3,261,785</u>
Change in net assets	(184,554)	83,631	118,821	17,898
Net assets, beginning of year	<u>11,372,950</u>	<u>705,796</u>	<u>1,143,578</u>	<u>13,222,324</u>
Net assets, end of year	<u>\$ 11,188,396</u>	<u>\$ 789,427</u>	<u>\$ 1,262,399</u>	<u>\$ 13,240,222</u>

See accompanying notes to consolidated financial statements.

# HOLOCAUST MUSEUM HOUSTON

## Consolidated Statements of Cash Flows Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 582,859	\$ 17,898
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	142,308	124,873
Bad debt expense	7,425	15,041
Contributions restricted for endowment	(263,882)	(118,000)
Net realized and unrealized (gain) loss on investments	(511,330)	179,165
Loss on asset disposal	6,130	-
Changes in operating assets and liabilities:		
Pledges receivable	(71,526)	(88,043)
Prepays and other assets	2,848	78,413
Accounts payable and accrued expenses	167,117	110,868
Deferred revenue	(2,951)	2,951
Net cash provided by operating activities	<u>58,998</u>	<u>323,166</u>
Cash flows from investing activities:		
Purchases of investments	(832,382)	(1,922,066)
Sales of investments	291,299	1,502,538
Net change in money market mutual funds held for investment	204,718	287,587
Purchases of property and equipment	(50,836)	(65,737)
Net cash used in investing activities	<u>(387,201)</u>	<u>(197,678)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for endowment	<u>263,882</u>	<u>118,000</u>
Net (decrease) increase in cash and cash equivalents	(64,321)	243,488
Cash and cash equivalents, beginning of year	<u>559,312</u>	<u>315,824</u>
Cash and cash equivalents, end of year	<u>\$ 494,991</u>	<u>\$ 559,312</u>

See accompanying notes to consolidated financial statements.

# HOLOCAUST MUSEUM HOUSTON

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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### Note 1 - Description of Organization

Holocaust Museum Houston (the Museum) is a Texas nonprofit corporation located in Houston, Texas. The Museum's mission is to establish and maintain a memorial to the millions of individuals who perished during World War II at the hands of the Nazis, and to continue to educate and enlighten people by promoting and presenting programs on remembrance, understanding and prevention.

The Houston Holocaust Museum Foundation, Inc. (the Foundation) operates exclusively for charitable, educational or religious purposes in connection with the Museum. The Museum is the sole member of the Foundation and appoints a majority of the Foundation's board of directors. Distributions by the Foundation are limited to the Museum or to another qualified organization designated by the Museum.

### Note 2 - Summary of Significant Accounting Policies

#### Basis of Consolidation

These consolidated financial statements include the assets, liabilities, net assets and activities of the Museum and the Foundation (collectively, the Holocaust Museum). All balances and transactions between the consolidated entities have been eliminated. The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Holocaust Museum's resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Holocaust Museum and changes therein are classified and reported as follows:

- Unrestricted net assets include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- Temporarily restricted net assets include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- Permanently restricted net assets include contributions that donors have restricted in perpetuity. Generally, the donors of these assets permit the use of all, or part of, the income earned on the related investments for specific purposes.

# HOLOCAUST MUSEUM HOUSTON

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### Recent Accounting Pronouncements

The Holocaust Museum has adopted all recently issued accounting pronouncements that were effective as of the date of these consolidated financial statements. The adoption of any accounting pronouncements not yet effective is not anticipated to have a material effect on the consolidated financial statements of the Holocaust Museum. The Holocaust Museum has not elected early implementation of any pronouncements.

#### Cash and Cash Equivalents

Highly liquid investments with original maturities of three months or less are considered cash equivalents. Cash and cash equivalents held by the Foundation's investment custodians are classified as investments.

#### Pledges Receivable

Pledges are recorded as revenue in the year they are received unless they contain a conditional promise to give. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts expected to be collected in more than one year are discounted, if material, to estimate the present value of future cash flows. At June 30, 2013 and 2012, all pledge balances were due within one year.

#### Investments

Investments are reported at fair value. Investment return is reported in the consolidated statement of activities and changes in net assets as an increase in unrestricted net assets unless its use is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets until expended in accordance with donor-imposed restrictions.

#### Property and Equipment

Property and equipment are reported at cost if purchased and at estimated fair market value at the date of contribution if donated. The Museum capitalizes additions and improvements with a cost of more than \$1,000. Depreciation is computed using the straight-line method over estimated useful lives of the assets ranging from two to forty years.

# HOLOCAUST MUSEUM HOUSTON

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### Collections

Collections are not recorded as assets in the consolidated statements of financial position. Purchases of collection items are reflected as decreases in unrestricted net assets in the year in which the items are acquired or as decreases in temporarily restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the consolidated financial statements.

#### Fair Value Measurements

The carrying amounts of receivables, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. Investments are carried at fair value.

#### Revenue Recognition

The Holocaust Museum records contributions and revenue on an accrual basis. The Holocaust Museum records revenue from the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give, certain contributed services, and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

The Holocaust Museum records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. It is the Holocaust Museum's policy to record temporarily restricted contributions received and expended in the same period as unrestricted net assets.

#### Donated Materials and Services

Donated materials and use of facilities are recognized at estimated fair value when an unconditional commitment is received from a donor. The related expense is recorded as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

#### Advertising

Advertising costs are expensed as incurred. The Museum paid approximately \$63,400 and \$22,400 in fiscal years 2013 and 2012 for advertising costs, respectively.

# HOLOCAUST MUSEUM HOUSTON

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### Use of Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the reported revenues and expenses and the allocation of expenses among various functions. Accordingly, actual results could differ from those estimates.

#### Reclassifications

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform with the current year presentation.

### Note 3 - Income Taxes

The Holocaust Museum is exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code (the Code). The Museum is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi) and the Foundation is classified as a Type I supporting organization under §509(a)(3). Contributions to the Museum and the Foundation are tax deductible within the limitations prescribed by the Code. The Holocaust Museum files annual federal information returns. The Holocaust Museum records charges for uncertain tax positions when they are considered probable. Based on its evaluation, the Holocaust Museum has concluded that there are no significant uncertain tax positions requiring recognition in the consolidated financial statements. The Holocaust Museum's evaluation was performed for tax periods 2010 through 2013. The Holocaust Museum is subject to routine examinations of its returns; however, there are no examinations for any tax periods currently in progress. The Holocaust Museum is no longer subject to income tax examinations by taxing authorities for the years before 2010.

# HOLOCAUST MUSEUM HOUSTON

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 4 - Cash and Cash Equivalents

Cash and cash equivalents consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Demand deposits	\$ 493,833	\$ 457,330
Money market mutual funds	<u>1,158</u>	<u>101,982</u>
Total cash and cash equivalents	<u>\$ 494,991</u>	<u>\$ 559,312</u>

### Note 5 - Investments and Fair Value Measurements

Accounting principles generally accepted in the United States of America require that certain assets and liabilities be reported at fair value and establishes a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date.

Certain of Holocaust Museum's financial assets are measured at fair value on a recurring basis. The three levels of the fair value hierarchy are as follows:

- *Level 1* - Quoted prices in active markets for identical assets or liabilities as of the reporting date.
- *Level 2* - Pricing inputs other than quoted prices included in Level 1, which are either directly observable or that can be derived or supported from observable data as of the reporting date.
- *Level 3* - Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are generally unobservable.

Financial instruments measured at fair value on a recurring basis at June 30, 2013 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Blended equity mutual funds	\$ 3,477,346	\$ -	\$ -	\$ 3,477,346
Fixed income mutual funds	2,663,361	-	-	2,663,361
International equity mutual funds	868,893	-	-	868,893
Marketfield multi-asset mutual fund (a)	704,873	-	-	704,873
Government money market mutual funds	350,174	-	-	350,174
Bonds	<u>-</u>	<u>58,002</u>	<u>-</u>	<u>58,002</u>
Total investments	8,064,647	58,002	-	8,122,649
Money market mutual funds held as cash equivalents	<u>1,158</u>	<u>-</u>	<u>-</u>	<u>1,158</u>
Total at fair value	<u>\$ 8,065,805</u>	<u>\$ 58,002</u>	<u>\$ -</u>	<u>\$ 8,123,807</u>

# HOLOCAUST MUSEUM HOUSTON

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 5 - Investments and Fair Value Measurements (Continued)

Financial instruments measured at fair value on a recurring basis at June 30, 2012 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Blended equity mutual funds	\$ 3,563,727	\$ -	\$ -	\$ 3,563,727
Fixed income mutual funds	2,731,539	-	-	2,731,539
International equity mutual funds	287,672	-	-	287,672
Marketfield multi-asset mutual fund (a)	488,558	-	-	488,558
Money market mutual funds	145,456	-	-	145,456
Bonds	-	58,002	-	58,002
Total investments	7,216,952	58,002	-	7,274,954
Money market mutual funds held as cash equivalents	101,982	-	-	101,982
Total at fair value	<u>\$7,318,934</u>	<u>\$ 58,002</u>	<u>\$ -</u>	<u>\$7,376,936</u>

(a) Marketfield multi-asset mutual fund consists of investments in equity securities, fixed-income securities and other investment companies, including exchange-traded funds, in proportions consistent with the evaluation of their expected risks and returns. The fund may invest up to 50% of its net assets in equity securities of foreign companies of any size, including up to 35% of its net assets in securities issued by corporations or governments located in developing or emerging markets. The fund may borrow money from banks or other financial institutions to purchase securities. The fund seeks capital appreciation and income.

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

- Mutual funds are valued at the publicly quoted daily closing price as reported by the fund and are deemed to be actively traded.
- Bonds are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Holocaust Museum believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date. There have been no changes in methodologies used at June 30, 2013 and 2012.

# HOLOCAUST MUSEUM HOUSTON

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 6 - Investment Income

Investment income consists of the following for the fiscal years ended June 30:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 263,471	\$ 315,156
Net unrealized gain (loss)	455,683	(162,109)
Net realized gain (loss)	55,647	(17,056)
Custodial and management fees	<u>(12,500)</u>	<u>(9,461)</u>
Investment income, net	<u>\$ 762,301</u>	<u>\$ 126,530</u>

### Note 7 - Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 3,577,887	\$ 3,577,887
Building and building improvements	4,197,525	4,379,068
Furniture and equipment	1,259,798	1,375,583
Artwork	<u>80,092</u>	<u>80,092</u>
Property and equipment	9,115,302	9,412,630
Less accumulated depreciation	<u>(3,425,624)</u>	<u>(3,625,350)</u>
Property and equipment, net	<u>\$ 5,689,678</u>	<u>\$ 5,787,280</u>

Depreciation expense amounted to \$142,308 and \$124,873 for the fiscal years ended June 30, 2013 and 2012, respectively.

### Note 8 - Collections

The Museum's collections are made up of historical artifacts, works of art, books, and other items pertaining to education, research, and curatorial purposes. Each of the items are preserved and cared for, and activities verifying existence and assessing condition are performed periodically. The Museum has never sold an item from its collection. In the unlikely event that a collection item was sold or disposed of, the proceeds would be used to further the Museum's mission.

# HOLOCAUST MUSEUM HOUSTON

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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### Note 9 - Note Payable

In January 2009, the Museum entered into an agreement to purchase from the City of Houston (the City) a public street right-of-way easement. Under the terms of the agreement, the Museum has agreed to engage a consultant to pursue federal transportation funding for improvements in the area and deposit any amounts raised with the City to fund transit improvements in the City's Museum District. If, after five years from the date of the agreement, the Museum has not obtained federal funding equal to the \$572,115 appraised value of the easement, the Museum is obligated to pay to the City the difference between the amount of federal funding raised and the appraised value of the easement plus interest at 8% per year commencing two years after the date of the agreement. The note payable was due on January 9, 2014. On December 17, 2013, the City passed an ordinance extending the term of the agreement by three years and modifying the amount of interest charged during the extension period. If, after the new due date of January 9, 2017, the Museum does not meet its obligations, interest will begin to accrue again at the previous rate. During the fiscal year 2013, the Museum recorded interest expense of approximately \$114,000 based on the original terms of the note, which will be waived if the Museum completes its obligations.

### Note 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2013</u>	<u>2012</u>
Educational programs	\$ 272,019	\$ 113,836
Teacher education	218,256	186,670
Permanent exhibits	197,097	203,755
Library and other	149,071	78,397
Lecture series	111,452	91,605
Conservation	89,214	64,654
Changing exhibits	48,491	22,115
Future operations	36,726	27,271
Traveling exhibits	<u>17,127</u>	<u>1,124</u>
Total temporarily restricted net assets	<u>\$1,139,453</u>	<u>\$ 789,427</u>

# HOLOCAUST MUSEUM HOUSTON

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 11 - Net Assets Released From Restrictions

Net assets were released from restrictions during fiscal years 2013 and 2012 by incurring expenses satisfying the restricted purposes specified by the donor as follows:

	<u>2013</u>	<u>2012</u>
Educational programs	\$ 107,303	\$ 213,512
Teacher education	17,139	17,550
Permanent exhibits	78,340	16,637
Library and other	22,239	7,909
Lecture series	-	25,380
Conservation	15,386	-
Changing exhibits	39,545	60,641
Future operations	30,955	50,834
Traveling exhibits	<u>4,988</u>	<u>815</u>
Total net assets released from restrictions	<u>\$ 315,895</u>	<u>\$ 393,278</u>

### Note 12 - Permanently Restricted Net Assets

At June 30, 2013 and 2012, permanently restricted net assets were invested to support the following:

	<u>2013</u>	<u>2012</u>
Teacher education	\$ 430,841	\$ 391,959
Conservation	311,215	311,215
Educational programs	250,000	250,000
Garden	200,000	-
Lecture series	117,205	117,205
Docent program	100,565	100,565
Yom Ha'Shoah program	78,002	53,002
Child survivors	<u>38,453</u>	<u>38,453</u>
Total permanently restricted net assets	<u>\$1,526,281</u>	<u>\$ 1,262,399</u>

### Note 13 - Endowment Funds

The Foundation has donor-restricted endowment funds that are maintained in accordance with explicit donor stipulations. The Board of Trustees of the Foundation has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets.

# HOLOCAUST MUSEUM HOUSTON

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### Note 13 - Endowment Funds (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Museum
- The investment policies and objectives of the Foundation

Changes in endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2011	\$ 6,363,868	\$ 341,048	\$ 1,142,671	\$7,847,587
Investment return:				
Interest and dividends	238,630	66,934	-	305,564
Net realized/unrealized (loss) gain	<u>(146,196)</u>	<u>(33,791)</u>	<u>821</u>	<u>(179,166)</u>
Total investment return	92,434	33,143	821	126,398
Operating expenses	(2,440)	-	-	(2,440)
Contributions	-	-	118,000	118,000
Reclassifications	(127,267)	126,360	907	-
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(83,797)</u>	<u>-</u>	<u>(83,797)</u>
Endowment net assets, June 30, 2012	<u>\$ 6,326,595</u>	<u>\$ 416,754</u>	<u>\$ 1,262,399</u>	<u>\$8,005,748</u>

## HOLOCAUST MUSEUM HOUSTON

### Notes to Consolidated Financial Statements June 30, 2013 and 2012

#### Note 13 - Endowment Funds (Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2012	\$ 6,326,595	\$ 416,754	\$ 1,262,399	\$8,005,748
Investment return:				
Interest and dividends	204,572	59,374	-	263,946
Net realized and unrealized gain	<u>396,582</u>	<u>107,845</u>	<u>-</u>	<u>504,427</u>
Total investment return	601,154	167,219	-	768,373
Operating expenses	(244,376)	-	-	(244,376)
Contributions	2,825	500	263,882	267,207
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(46,936)</u>	<u>-</u>	<u>(46,936)</u>
Endowment net assets, June 30, 2013	<u>\$ 6,686,198</u>	<u>\$ 537,537</u>	<u>\$ 1,526,281</u>	<u>\$8,750,016</u>

Endowment net asset composition as of June 30, 2013 is as follows:

Board-designated endowment funds	\$ 6,686,198	\$ -	\$ -	\$6,686,198
Donor-restricted endowment funds	<u>-</u>	<u>537,537</u>	<u>1,526,281</u>	<u>2,063,818</u>
Total endowment net assets	<u>\$ 6,686,198</u>	<u>\$ 537,537</u>	<u>\$ 1,526,281</u>	<u>\$8,750,016</u>

Endowment net asset composition as of June 30, 2012 is as follows:

Board-designated endowment funds	\$ 6,326,595	\$ -	\$ -	\$6,326,595
Donor-restricted endowment funds	<u>-</u>	<u>416,754</u>	<u>1,262,399</u>	<u>1,679,153</u>
Total endowment net assets	<u>\$ 6,326,595</u>	<u>\$ 416,754</u>	<u>\$ 1,262,399</u>	<u>\$8,005,748</u>

#### Endowment Spending Policy

The Foundation recognizes that the rationale for investing funds for future use assumes that the purchasing power of those funds will not be diminished over time. Therefore, the level of appropriation will be adjusted from time to time such that the endowment fund purchasing power will not be eroded by appropriation. Currently, this policy will be to appropriate no more than 4% of the fair market value of the funds annually. Additionally, permanently restricted funds (those donated with express donor intention) will not be appropriated for use by the Foundation. If a permanently restricted fund has not generated income or appreciation sufficiently to accommodate otherwise allowed appropriations, the Foundation will attempt to fund such appropriation from unrestricted funds.

# HOLOCAUST MUSEUM HOUSTON

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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### **Note 13 - Endowment Funds (Continued)**

#### Endowment Return Objectives and Risk Parameters

The investment objective of the Foundation for all funds intended to be permanently available to support the activities of the Museum is to generate a total return (including appreciation and income) over each complete economic cycle of at least 4% plus the applicable Consumer Price Index per year.

### **Note 14 - Conditional Contribution**

The Museum received a conditional contribution from a foundation for a maximum of \$400,000, payable \$20,000 per year for 20 years beginning in 2005. The contributions are to be used to fund educational programs for which no admission or attendance fee is charged and are conditioned on an annual approval by the donor of a programmatic budget. Approximately \$25,400 was recognized by the Museum in connection with this gift in fiscal year 2012 and no related amounts were recognized in fiscal year 2013.

### **Note 15 - Retirement Plan**

The Museum offers a §403(b) defined contribution plan that covers all full-time employees. An employee is eligible to participate in the plan and is fully vested upon completion of 1,000 hours of service. The Museum makes contributions of 2% of employee compensation. Employees may contribute amounts to the plan up to the limits established by the Internal Revenue Code. The Museum made contributions to the plan of approximately \$21,000 and \$45,000 during the fiscal years ended June 30, 2013 and 2012, respectively.

### **Note 16 - Intercompany Transactions**

The Museum transfers excess operating funds to the Foundation to manage as part of the board-designated operating endowment. These amounts, along with other funds received by the Foundation, are invested to support various aspects of the Museum's operations. The Foundation makes periodic grants to the Museum for these purposes. There were no Museum transfers to the Foundation in fiscal years 2013 and 2012. The Foundation's distributions to the Museum totaled approximately \$279,000 and \$84,000 during fiscal years 2013 and 2012, respectively. These transactions are eliminated within consolidation.

During the fiscal year ended June 30, 2012, the Foundation loaned the Museum \$205,000 for operating purposes. As of June 30, 2012, the outstanding balance was \$605,000. During the fiscal year ended June 30, 2013, the Foundation forgave the \$605,000 outstanding loan balance from the Museum. At June 30, 2013 and 2012, the outstanding loan balance was \$0 and \$605,000, respectively.

# HOLOCAUST MUSEUM HOUSTON

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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### **Note 17 - Credit Risk**

Certain financial instruments potentially subject the Holocaust Museum to concentrations of credit risk. Investment securities consist primarily of mutual funds which could subject the Holocaust Museum to losses in the event of a general downturn in the public market. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in net values of investment securities will occur in the near term and that such change could materially affect the amounts recorded in the consolidated statements of financial position.

The Museum maintains cash in financial institution accounts which, at times, exceed federally insured limits. The Museum has not experienced any losses related to such accounts. Cash and cash equivalents are placed with highly-accredited, quality financial institutions and management of the Museum believes it is not exposed to any significant credit risk.

### **Note 18 - Subsequent Events**

Effective July 1, 2013, the Foundation's governance structure changed resulting in a majority of the members not being affiliated with the Museum.

Management has evaluated subsequent events through February 5, 2014, the date which the consolidated financial statements were available to be issued. Management has determined that no other subsequent events require disclosure in these consolidated financial statements.

## HOLOCAUST MUSEUM HOUSTON

### Consolidating Statement of Financial Position June 30, 2013

<u>Assets</u>	<u>Museum</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Cash and cash equivalents	\$ 494,991	\$ -	\$ -	\$ 494,991
Pledges receivable	317,550	-	-	317,550
Prepays and other assets	165,350	-	-	165,350
Due from affiliate	9,269	36,099	(45,368)	-
Investments	-	8,122,649	-	8,122,649
Property and equipment, net	5,689,678	-	-	5,689,678
Total assets	<u>\$ 6,676,838</u>	<u>\$ 8,158,748</u>	<u>\$ (45,368)</u>	<u>\$ 14,790,218</u>
<b><u>Liabilities and Net Assets</u></b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 395,022	\$ -	\$ -	\$ 395,022
Due to affiliate	36,099	9,269	(45,368)	-
Note payable	572,115	-	-	572,115
Total liabilities	<u>1,003,236</u>	<u>9,269</u>	<u>(45,368)</u>	<u>967,137</u>
Net assets:				
Unrestricted	5,072,183	6,085,164	-	11,157,347
Temporarily restricted	601,419	538,034	-	1,139,453
Permanently restricted	-	1,526,281	-	1,526,281
Total net assets	<u>5,673,602</u>	<u>8,149,479</u>	<u>-</u>	<u>13,823,081</u>
Total liabilities and net assets	<u>\$ 6,676,838</u>	<u>\$ 8,158,748</u>	<u>\$ (45,368)</u>	<u>\$ 14,790,218</u>

See accompanying notes to consolidated financial statements.

## HOLOCAUST MUSEUM HOUSTON

### Consolidating Statement of Activities and Changes in Net Assets Year Ended June 30, 2013

	Museum		Foundation			Eliminations	Consolidated Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted		
Public support and revenues:							
Contributions	\$ 1,202,619	\$ 497,704	\$ 2,825	\$ 500	\$ 263,882	\$ (278,812)	\$ 1,688,718
Federal grants	104,976	-	-	-	-	-	104,976
Membership fees	331,334	-	-	-	-	-	331,334
Special events, net	1,079,927	-	-	-	-	-	1,079,927
Book sales	108,076	-	-	-	-	-	108,076
Rental and other income	40,607	-	-	-	-	-	40,607
Investment income, net	1,964	-	592,620	167,717	-	-	762,301
Forgiveness of debt income	605,000	-	-	-	-	(605,000)	-
Total public support and revenues	3,474,503	497,704	595,445	168,217	263,882	(883,812)	4,115,939
Net assets released from restrictions - program restrictions accomplished	268,959	(268,959)	46,936	(46,936)	-	-	-
Total	3,743,462	228,745	642,381	121,281	263,882	(883,812)	4,115,939
Expenses:							
Program services	1,268,533	-	-	-	-	-	1,268,533
Management and general	1,779,847	-	278,812	-	-	(278,812)	1,779,847
Fundraising	484,700	-	-	-	-	-	484,700
Forgiveness of debt	-	-	605,000	-	-	(605,000)	-
Total expenses	3,533,080	-	883,812	-	-	(883,812)	3,533,080
Change in net assets	210,382	228,745	(241,431)	121,281	263,882	-	582,859
Net assets, beginning of year	4,861,801	372,674	6,326,595	416,753	1,262,399	-	13,240,222
Net assets, end of year	\$ 5,072,183	\$ 601,419	\$ 6,085,164	\$ 538,034	\$ 1,526,281	\$ -	\$ 13,823,081

See accompanying notes to consolidated financial statements.