

Holocaust Museum Houston
Consolidated Financial Statements
For the Fiscal Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Holocaust Museum Houston (a nonprofit organization) and The Houston Holocaust Museum Foundation, Inc. (collectively, the "Holocaust Museum"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and changes in net assets, and cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Trustees of
Holocaust Museum Houston and
The Holocaust Museum Foundation, Inc.
Re: Independent Auditors' Report

Opinion

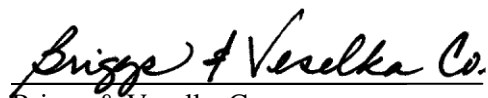
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Holocaust Museum Houston and The Houston Holocaust Museum Foundation, Inc. as of June 30, 2014, and the changes in their net assets and their cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Errors

As described in *Note 2* to the financial statements, certain errors resulting in corrections to beginning assets, liabilities, and the classification of net assets for the Holocaust Museum Houston and The Houston Holocaust Museum Foundation, Inc., were discovered by management during the fiscal year. Accordingly, beginning assets, liabilities and net assets have been restated on the June 30, 2014 financial statements presented. Our opinion is not modified with respect to this matter.

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 fiscal year ended June 30, 2014 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.


Briggs & Veselka Co.
Houston, Texas

September 30, 2014

HOLOCAUST MUSEUM HOUSTON
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

| | |
|---|-----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 263,019 |
| Pledges receivable, net | 449,908 |
| Inventory | 39,731 |
| Prepays and other assets | 70,184 |
| Investments | 9,174,480 |
| Property and equipment, net | <u>5,895,076</u> |
| TOTAL ASSETS | <u>\$ 15,892,398</u> |
| LIABILITIES AND NET ASSETS | |
| Liabilities | |
| Accounts payable and accrued expenses | \$ 342,452 |
| Line of credit | 196,853 |
| Deferred revenue | 5,000 |
| Deferred compensation payable | 172,716 |
| Note payable | <u>572,115</u> |
| Total liabilities | 1,289,136 |
| Net assets | |
| Unrestricted | 5,228,112 |
| Unrestricted – Board designated | 6,448,526 |
| Temporarily restricted | 1,264,114 |
| Permanently restricted | <u>1,662,510</u> |
| Total net assets | <u>14,603,262</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 15,892,398</u> |

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

HOLOCAUST MUSEUM HOUSTON
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Support and revenues | | | | |
| Contributions | \$ 707,206 | \$ 839,435 | \$ 66,802 | \$ 1,613,443 |
| Federal grants | 54,188 | - | - | 54,188 |
| Special events, net (revenues of \$1,916,071 less expenses of \$212,286) | 1,703,785 | - | - | 1,703,785 |
| Membership fees | 303,362 | - | - | 303,362 |
| Admissions, tours and programs | 58,871 | - | - | 58,871 |
| Book sales | 108,539 | - | - | 108,539 |
| Rental and other income | 116,261 | - | - | 116,261 |
| Investment return, net | 682,828 | 252,556 | - | 935,384 |
| | <u>3,735,040</u> | <u>1,091,991</u> | <u>66,802</u> | <u>4,893,833</u> |
| Net assets released from restrictions | <u>728,905</u> | <u>(728,905)</u> | <u>-</u> | <u>-</u> |
| Total support and revenues | 4,463,945 | 363,086 | 66,802 | 4,893,833 |
| Expenses | | | | |
| Program services | 2,095,411 | - | - | 2,095,411 |
| Management and general | 1,173,638 | - | - | 1,173,638 |
| Fundraising | 844,603 | - | - | 844,603 |
| Total expenses | <u>4,113,652</u> | <u>-</u> | <u>-</u> | <u>4,113,652</u> |
| Change in net assets | 350,293 | 363,086 | 66,802 | 780,181 |
| Net assets, beginning of year, as previously reported | 11,157,347 | 1,139,453 | 1,526,281 | 13,823,081 |
| Restatements (<i>Note 2</i>) | <u>168,998</u> | <u>(238,425)</u> | <u>69,427</u> | <u>-</u> |
| Net assets, beginning of year, restated | <u>11,326,345</u> | <u>901,028</u> | <u>1,595,708</u> | <u>13,823,081</u> |
| NET ASSETS, END OF YEAR | <u>\$ 11,676,638</u> | <u>\$ 1,264,114</u> | <u>\$ 1,662,510</u> | <u>\$ 14,603,262</u> |

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

HOLOCAUST MUSEUM HOUSTON
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| | |
|--|--------------------------|
| Cash flows from operating activities | |
| Change in net assets | \$ 780,181 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | |
| Depreciation | 156,765 |
| Bad debt expense | 160,216 |
| Contributions restricted for endowment | (66,802) |
| Realized and unrealized gain on investments | (655,222) |
| Change in operating assets and liabilities: | |
| Pledges receivable | (292,574) |
| Inventory | 49,112 |
| Prepaid expenses and other assets | 6,323 |
| Accounts payable and accrued expenses | (52,570) |
| Deferred revenue | <u>5,000</u> |
| Net cash from operating activities | 90,429 |
| Cash flows from investing activities | |
| Purchases of property and equipment | (362,163) |
| Purchases of investments | (6,871,675) |
| Proceeds from sale of investments | <u>6,647,782</u> |
| Net cash from investing activities | (586,056) |
| Cash flows from financing activities | |
| Contributions restricted for endowment | 66,802 |
| Net borrowings on line of credit | <u>196,853</u> |
| Net cash from financing activities | <u>263,655</u> |
| Net change in cash and cash equivalents | (231,972) |
| Cash and cash equivalents, beginning of year | <u>494,991</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 263,019</u></u> |
| Supplemental cash flow information: | |
| Cash paid for interest | \$ 615 |
| Noncash investing and financing activities: | |
| Increase in value of deferred compensation plan | \$ 26,979 |

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

NOTE 1 – FORM OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Distributions by the Foundation are limited to the Museum or to another qualified organization designated by the Museum.

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.

Financial Statement Presentation – 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** – 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** – 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** – 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.

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, 2014, all pledge balances were due within one year.

An allowance is made for uncollectible pledges receivable based on the Holocaust Museum’s analysis of past collection experience and other judgmental factors. Allowance for uncollectible pledges totaled \$7,500 at June 30, 2014.

Inventory – Inventory is valued at the lower of cost (moving weighted-average method) or market.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

Investments and Investment Income – Investments in marketable equity and debt securities are reported at fair value. Investment income, including unrealized gains and losses, 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 income 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.

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. Collections are not recorded as assets in the consolidated statement 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 financial statements. 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.

Deferred Revenue – The Holocaust Museum accounts for income collected in the current period but relating to future events as deferred revenue.

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 all temporarily restricted contributions received as temporarily restricted net assets until expiration of the restriction when they are reclassified to 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.

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.

Advertising – Advertising costs are expensed as incurred. The Museum expensed \$176,758 during the fiscal year ended June 30, 2014 for advertising costs.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

Federal Income Tax – 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 Museum may receive income from unrelated business activities; however, no unrelated business income tax was due at June 30, 2014. 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 financial statements.

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 2011.

Use of Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). 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.

Functional Expenses – The costs of providing the Holocaust Museum’s various programs and activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the various programs and supporting services benefited.

Investment 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 statement of financial position.

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

Recent Accounting Pronouncements – The Holocaust Museum has implemented all new accounting pronouncements and does not believe there are any new pronouncements that have been issued that may have a material impact on the financial statements.

NOTE 2 – RESTATEMENTS

The Organization has restated beginning net assets as previously reported for the Museum and the Foundation to reflect errors discovered by management during the current fiscal year. Management discovered that certain contributions received in prior fiscal years were not recorded in the correct entity or correct net asset classification. While there was no effect on consolidated total net assets as of the beginning of the fiscal year, as a result of the restatement, the Museum’s total beginning net assets decreased by \$184,910 (of which \$154,497 increased beginning unrestricted net assets and \$339,407 decreased beginning temporarily restricted net assets) and the Foundation’s total beginning net assets were increased by \$184,910 (of which \$14,501 increased beginning unrestricted net assets, \$100,982 increased beginning temporarily restricted net assets, and \$69,427 increased beginning permanently restricted net assets).

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

A summary of the restatement adjustment and its effect on the net asset classifications for the Museum, the Foundation, and the financial statements as of the beginning of the fiscal year is as follows:

| | <u>As Previously Reported</u> | <u>Adjustments</u> | <u>As Restated</u> |
|---|-----------------------------------|---------------------|----------------------|
| Consolidated statement of activities and changes in net assets, beginning of year | | | |
| Net assets, beginning of year | | | |
| Unrestricted | \$ 11,157,347 | \$ 168,998 | \$ 11,326,345 |
| Temporarily restricted | 1,139,453 | (238,425) | 901,028 |
| Permanently restricted | <u>1,526,281</u> | <u>69,427</u> | <u>1,595,708</u> |
| Net assets, beginning of year (restated) | <u>\$ 13,823,081</u> | <u>\$ -</u> | <u>\$ 13,823,081</u> |
| Consolidating statement of activities and changes in net assets | | | |
| <u>Museum</u> | | | |
| Net assets, beginning of year | | | |
| Unrestricted | \$ 5,072,183 | \$ 154,497 | \$ 5,226,680 |
| Temporarily restricted | 601,419 | (339,407) | 262,012 |
| Permanently restricted | <u>-</u> | <u>-</u> | <u>-</u> |
| Net assets, beginning of year (restated) | <u>\$ 5,673,602</u> | <u>\$ (184,910)</u> | <u>\$ 5,488,692</u> |
| <u>Foundation</u> | | | |
| Net assets, beginning of year | | | |
| Unrestricted | \$ 6,085,164 | \$ 14,501 | \$ 6,099,665 |
| Temporarily restricted | 538,034 | 100,982 | 639,016 |
| Permanently restricted | <u>1,526,281</u> | <u>69,427</u> | <u>1,595,708</u> |
| Net assets, beginning of year (restated) | <u>\$ 8,149,479</u> | <u>\$ 184,910</u> | <u>\$ 8,334,389</u> |

In addition, the Organization has restated beginning assets and liabilities as previously reported to reflect a deferred compensation plan asset and liability that had not been previously reported. Management discovered that the plan established in prior fiscal years had been established and funded, but not recorded on the books. While there was no effect on consolidated net assets as of the beginning of the fiscal year, as a result of the restatement, the Museum's beginning total assets and total liabilities increased by \$145,737. There was no effect on the consolidated statement of activities and changes in net assets.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at June 30, 2014:

| | |
|---------------------------------|-------------------|
| Demand deposits | \$ 261,861 |
| Money market funds | <u>1,158</u> |
| Total cash and cash equivalents | <u>\$ 263,019</u> |

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 – PLEDGES RECEIVABLE, NET

Pledges receivable, net consists of the following at June 30, 2014:

| | |
|---|-------------------|
| Receivables in less than one year | \$ 457,408 |
| Receivables in one to five years | - |
| | <u>457,408</u> |
| Less: allowance for uncollectible pledges | <u>(7,500)</u> |
| Total pledges receivable, net | <u>\$ 449,908</u> |

Pledges receivable in more than one year are discounted to their present value at the time the pledge is made using the current risk free interest rate.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2014:

| | |
|------------------------------------|---------------------|
| Land | \$ 3,577,887 |
| Building and building improvements | 4,461,117 |
| Furniture and equipment | 1,260,044 |
| Artwork | <u>50,104</u> |
| | 9,349,152 |
| Less: accumulated depreciation | <u>(3,454,076)</u> |
| Total property and equipment, net | <u>\$ 5,895,076</u> |

Depreciation expense amounted to \$156,765 for the fiscal year ended June 30, 2014.

NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

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. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2** – Inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities that are not active; or other inputs that are observable or can be corroborated by observable market data.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

- **Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the financial instruments. The fair value of Level 3 financial instruments is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Financial instruments measured at fair value on a recurring basis at June 30, 2014 are as follows:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|---------------------|-------------------|----------------|---------------------|
| Investments | | | | |
| Blended equity mutual funds | \$ 3,204,410 | \$ - | \$ - | \$ 3,204,410 |
| Fixed income mutual funds | 3,519,496 | - | - | 3,519,496 |
| International equity mutual funds | 1,725,909 | - | - | 1,725,909 |
| Marketfield multi-asset mutual fund (a) | 356,455 | - | - | 356,455 |
| Government money market mutual funds | 138,004 | - | - | 138,004 |
| Bonds | - | 57,490 | - | 57,490 |
| Pooled separate accounts | - | <u>172,716</u> | - | <u>172,716</u> |
| Total investments | 8,944,274 | 230,206 | - | 9,174,480 |
| 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>\$ 8,945,432</u> | <u>\$ 230,206</u> | <u>\$ -</u> | <u>\$ 9,175,638</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.
- Pooled separate accounts are valued at the net asset value (NAV) of units of a pooled separate account. The NAV, as provided by the custodian, is used as a practical expedient to estimate fair value. The NAV is based on the market value of its underlying investments held by the account less its liabilities. This practical expedient is not used when it is determined to be probable that the account will sell the investment for an amount different than the reported NAV.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

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 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, 2014.

NOTE 7 – INVESTMENT RETURN

Investment return consists of the following for the fiscal year ended June 30, 2014:

| | |
|---|-------------------|
| Interest and dividends | \$ 292,687 |
| Realized and unrealized gain on investments | 655,222 |
| Custodial and management fees | <u>(12,525)</u> |
| Investment return, net | <u>\$ 935,384</u> |

NOTE 8 – LINE OF CREDIT

The Museum has a \$200,000 bank line of credit which matures February 6, 2015. Amounts borrowed under this agreement bear interest at the three month LIBOR rate plus 2.125% (2.36% at June 30, 2014). At June 30, 2014, there was \$196,853 outstanding on this line. The line of credit is unsecured.

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 had 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 had not obtained federal funding equal to the \$572,115 appraised value of the easement, the Museum was 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 originally due on January 9, 2014; however, 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 ended June 30, 2014, the Museum accrued \$22,885 of interest related to the note payable, resulting in total accrued interest of \$135,523 as of June 30, 2014. As the Museum expects to meet its obligation under the extension agreement with the City, it has not recorded any interest expense after January 9, 2014.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2014:

| | |
|---|---------------------|
| Educational programs | \$ 513,602 |
| Teacher education | 111,640 |
| Permanent exhibits | 146,009 |
| Library | 150,897 |
| Lecture series | 102,642 |
| Future operations and other | 125,409 |
| Conservation | <u>113,915</u> |
| Total temporarily restricted net assets | <u>\$ 1,264,114</u> |

NOTE 11 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions during the fiscal year ended June 30, 2014 by incurring expenses satisfying the restricted purposes specified by the donor as follows:

| | |
|---|-------------------|
| Educational programs | \$ 260,054 |
| Teacher education | 25,475 |
| Permanent exhibits | 159,765 |
| Library | 15,590 |
| Lecture series | 22,976 |
| Future operations and other | 104,997 |
| Conservation | 22,214 |
| Changing exhibits | <u>117,834</u> |
| Total net assets released from restrictions | <u>\$ 728,905</u> |

NOTE 12 – PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2014, permanently restricted net assets were available to support the following:

| | |
|---|---------------------|
| Teacher education | \$ 486,028 |
| Conservation | 311,215 |
| Educational programs | 306,041 |
| Garden | 200,000 |
| Lecture series | 117,205 |
| Docent program | 100,565 |
| Yom Ha'Shoah program | 103,002 |
| Child survivors | <u>38,454</u> |
| Total permanently restricted net assets | <u>\$ 1,662,510</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.

The remaining portion of the donor-restricted endowment fund including earnings that have not been explicitly designated as unrestricted by the donor that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the 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 funds;
- The purposes of the Foundation and 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 Museum; and
- The investment policies and objectives of the Foundation.

From time-to-time, the fair value of assets associated with the endowment fund may fall below the level that the donor or TUPMIFA requires the Foundation to retain as a fund of perpetual duration as a result of temporary unfavorable market fluctuations. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies at June 30, 2014.

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JUNE 30, 2014

The following table reports the composition of the Foundation's endowment by net asset class and a reconciliation of the beginning and ending balance of the Foundation's endowment funds:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, July 1, 2013 | \$ 6,085,164 | \$ 538,034 | \$ 1,526,281 | \$ 8,149,479 |
| Restatements | <u>14,501</u> | <u>100,982</u> | <u>69,427</u> | <u>184,910</u> |
| Endowment net assets, July 1, 2013, as restated | 6,099,665 | 639,016 | 1,595,708 | 8,334,389 |
| Investment return | | | | |
| Interest and dividends | 214,064 | 78,545 | - | 292,609 |
| Net realized and unrealized gain | <u>468,686</u> | <u>174,011</u> | <u>-</u> | <u>642,697</u> |
| Total investment return | 682,750 | 252,556 | - | 935,306 |
| Operating expenses | (337,765) | - | - | (337,765) |
| Contributions | 3,876 | 105,050 | 66,802 | 175,728 |
| Appropriations for expenditure | <u>-</u> | <u>(104,670)</u> | <u>-</u> | <u>(104,670)</u> |
| Endowment net assets, June 30, 2014 | <u>\$ 6,448,526</u> | <u>\$ 891,952</u> | <u>\$ 1,662,510</u> | <u>\$ 9,002,988</u> |

Endowment net asset composition as of June 30, 2014 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Board-designated endowment funds | \$ 6,448,526 | \$ - | \$ - | \$ 6,448,526 |
| Donor-restricted endowment funds | <u>-</u> | <u>891,952</u> | <u>1,662,510</u> | <u>2,554,462</u> |
| Total endowment net assets | <u>\$ 6,448,526</u> | <u>\$ 891,952</u> | <u>\$ 1,662,510</u> | <u>\$ 9,002,988</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. During the current fiscal year, this policy was changed in order to appropriate between 0% and 5% 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.

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Endowment Return Objectives and Risk Parameters – The investment objective of the Foundation for all funds is to ensure that future growth is sufficient to offset normal inflation plus support spending requirements of the Museum up to 5% of the fair value of the funds annually. The Foundation believes that overall, the portfolio can endure average market risk over the long-term to achieve a level of income necessary to support the Museum.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate of return objectives, the assets will be managed as a balanced portfolio having two major asset components: an equity portion comprised of common stocks and a fixed income portion comprised of bonds and preferred stocks. Equity holdings in any one company should not exceed more than 10% of the market value of the Foundation’s equity portfolio. Not more than 25% of the market value of the equity portfolio should be invested in any one economic sector.

NOTE 14 – IN-KIND CONTRIBUTIONS

Individuals and other organizations have provided or donated property, materials, and services to the Museum at no cost or at costs significantly below market value. These items are recorded as contributions in unrestricted net assets on the consolidated statement of activities and changes in net assets at their estimated fair value during the fiscal year ended June 30, 2014:

| | |
|--------------------------------|-------------------|
| Advertising | \$ 94,499 |
| Catering | 7,500 |
| Computer services and software | 9,420 |
| Repairs and maintenance | 27,836 |
| Supplies | 25,387 |
| Travel | <u>3,046</u> |
| Total | <u>\$ 167,688</u> |

NOTE 15 – LEASING ACTIVITIES

The Museum began leasing a portion of its parking lot under short-term non-cancellable operating leases. During the fiscal year ended June 30, 2014, the Museum recorded \$18,050 of rental income in rental and other income on the consolidated statement of activities and changes in net assets.

Effective February 28, 2014, the Museum entered into an agreement with a third-party to lease a portion of its parking lot. The agreement provides for monthly rental payments to be received from the third-party based on usage levels. The Museum will collect 70% of the gross revenue collected by the parking management service for the use of its parking lot. During the fiscal year ended June 30, 2014, the Museum recorded \$28,778 of rental income in rental and other income on the consolidated statement of activities and changes in net assets.

NOTE 16 – RETIREMENT PLANS

Effective July 1, 2005, the Museum established a §403(b) defined contribution plan. This plan was frozen as to future contributions from both employee deferrals and the employer as of September 2010. No contributions have been made to this plan since September 2010.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

Effective September 1, 2010, the Museum established a new §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 \$26,000 during the fiscal year ended June 30, 2014.

Effective July 1, 2005, the Museum established a §457(b) deferred compensation plan. The amount of contribution made each plan year is within the Organization's discretion and may be zero in some years. For the fiscal year ended June 30, 2014, the Museum did not make a contribution to the plan. Assets held for this plan were \$172,716 as of June 30, 2014, and are reported as investments with a corresponding liability to plan participants reported in deferred compensation payable on the consolidated statement of financial position.

NOTE 17 – INTERCOMPANY TRANSACTIONS

From time-to-time, the Museum may transfer excess operating funds, at its discretion, 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 year 2014. The Foundation's distributions to the Museum totaled \$437,883 during fiscal year 2014. These transactions are eliminated within consolidation.

NOTE 18 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 30, 2014, the date which the financial statements were available to be issued. Management has determined that no other subsequent events require disclosure in these financial statements.

HOLOCAUST MUSEUM HOUSTON
SCHEDULE I – CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

| | <u>Museum</u> | <u>Foundation</u> | <u>Eliminations</u> | <u>Consolidated Total</u> |
|---|---------------------|---------------------|---------------------|-------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 262,275 | \$ 744 | \$ - | \$ 263,019 |
| Pledges receivable, net | 449,908 | - | - | 449,908 |
| Inventory | 39,731 | - | - | 39,731 |
| Prepays and other assets | 70,184 | - | - | 70,184 |
| Due from affiliate | 25 | 505 | (530) | - |
| Investments | 172,716 | 9,001,764 | - | 9,174,480 |
| Property and equipment, net | <u>5,895,076</u> | <u>-</u> | <u>-</u> | <u>5,895,076</u> |
| | | | | - |
| TOTAL ASSETS | <u>\$ 6,889,915</u> | <u>\$ 9,003,013</u> | <u>\$ (530)</u> | <u>\$ 15,892,398</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Liabilities | | | | |
| Accounts payable and accrued expenses | \$ 342,452 | \$ - | \$ - | \$ 342,452 |
| Due to affiliate | 505 | 25 | (530) | - |
| Line of credit | 196,853 | - | - | 196,853 |
| Deferred revenue | 5,000 | - | - | 5,000 |
| Deferred compensation payable | 172,716 | - | - | 172,716 |
| Note payable | <u>572,115</u> | <u>-</u> | <u>-</u> | <u>572,115</u> |
| Total liabilities | 1,289,641 | 25 | (530) | 1,289,136 |
| Net assets | | | | |
| Unrestricted | 5,228,112 | - | - | 5,228,112 |
| Unrestricted – Board designated | - | 6,448,526 | - | 6,448,526 |
| Temporarily restricted | 372,162 | 891,952 | - | 1,264,114 |
| Permanently restricted | <u>-</u> | <u>1,662,510</u> | <u>-</u> | <u>1,662,510</u> |
| Total net assets | <u>5,600,274</u> | <u>9,002,988</u> | <u>-</u> | <u>14,603,262</u> |
| | | | | - |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 6,889,915</u> | <u>\$ 9,003,013</u> | <u>\$ (530)</u> | <u>\$ 15,892,398</u> |

See accompanying notes to consolidated financial statements.

HOLOCAUST MUSEUM HOUSTON
**SCHEDULE II – CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

| | Museum | | Foundation | | | Eliminations | Consolidated Total |
|--|---------------------|---------------------------|---------------------|---------------------------|---------------------------|------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Support and revenues | | | | | | | |
| Contributions | \$ 1,141,213 | \$ 734,385 | \$ 3,876 | \$ 105,050 | \$ 66,802 | \$ (437,883) | \$ 1,613,443 |
| Federal grants | 54,188 | - | - | - | - | - | 54,188 |
| Special events, net | 1,703,785 | - | - | - | - | - | 1,703,785 |
| Membership fees | 303,362 | - | - | - | - | - | 303,362 |
| Admissions, tours and programs | 58,871 | - | - | - | - | - | 58,871 |
| Book sales | 108,539 | - | - | - | - | - | 108,539 |
| Rental and other income | 116,261 | - | - | - | - | - | 116,261 |
| Investment return, net | 78 | - | 682,750 | 252,556 | - | - | 935,384 |
| | <u>3,486,297</u> | <u>734,385</u> | <u>686,626</u> | <u>357,606</u> | <u>66,802</u> | <u>(437,883)</u> | <u>4,893,833</u> |
| Net assets released from restrictions | <u>624,235</u> | <u>(624,235)</u> | <u>104,670</u> | <u>(104,670)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total support and revenues | 4,110,532 | 110,150 | 791,296 | 252,936 | 66,802 | (437,883) | 4,893,833 |
| Expenses | | | | | | | |
| Program services | 2,095,411 | - | - | - | - | - | 2,095,411 |
| Management and general | 1,169,086 | - | 442,435 | - | - | (437,883) | 1,173,638 |
| Fundraising | 844,603 | - | - | - | - | - | 844,603 |
| Total expenses | <u>4,109,100</u> | <u>-</u> | <u>442,435</u> | <u>-</u> | <u>-</u> | <u>(437,883)</u> | <u>4,113,652</u> |
| Change in net assets | 1,432 | 110,150 | 348,861 | 252,936 | 66,802 | - | 780,181 |
| Net assets, beginning of year, as previously reported | 5,072,183 | 601,419 | 6,085,164 | 538,034 | 1,526,281 | - | 13,823,081 |
| Restatements (<i>Note 2</i>) | <u>154,497</u> | <u>(339,407)</u> | <u>14,501</u> | <u>100,982</u> | <u>69,427</u> | <u>-</u> | <u>-</u> |
| Net assets, beginning of year, restated | <u>5,226,680</u> | <u>262,012</u> | <u>6,099,665</u> | <u>639,016</u> | <u>1,595,708</u> | <u>-</u> | <u>13,823,081</u> |
| NET ASSETS, END OF YEAR | <u>\$ 5,228,112</u> | <u>\$ 372,162</u> | <u>\$ 6,448,526</u> | <u>\$ 891,952</u> | <u>\$ 1,662,510</u> | <u>\$ -</u> | <u>\$ 14,603,262</u> |

See accompanying notes to consolidated financial statements.

HOLOCAUST MUSEUM HOUSTON
SCHEDULE III – CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| | Program | Management and General | Fundraising | Total |
|--------------------------------|---------------------|---------------------------|-------------------|---------------------|
| Advertising | \$ 120,323 | \$ 20,402 | \$ 36,033 | \$ 176,758 |
| Audio visual | 3,858 | 957 | 49,288 | 54,103 |
| Awards | 18,985 | 16,586 | 3,533 | 39,104 |
| Bad debt expense | - | 6,517 | 153,699 | 160,216 |
| Bank and merchant fees | - | 101,671 | - | 101,671 |
| Catering | 38,518 | 14,293 | 3,572 | 56,383 |
| Computer services and software | 55,535 | 43,683 | 19,594 | 118,812 |
| Contract services | 121,781 | 110,636 | 31,423 | 263,840 |
| Depreciation | 128,680 | 21,716 | 6,369 | 156,765 |
| Dues and subscriptions | 9,307 | 9,419 | 3,780 | 22,506 |
| Education sponsorships | 5,500 | - | - | 5,500 |
| Engraving | 375 | 43 | - | 418 |
| Equipment | 28 | 2,257 | 1,520 | 3,805 |
| Honorariums | 43,223 | - | - | 43,223 |
| Insurance | 69,745 | 18,360 | 1,148 | 89,253 |
| Interest expense | 489 | 21,226 | - | 21,715 |
| Inventory purchases | 127,809 | - | - | 127,809 |
| Janitorial | 20,333 | 8,929 | - | 29,262 |
| Legal fees | 4,193 | 8,786 | 206 | 13,185 |
| Meals and entertainment | 13,325 | 14,244 | 938 | 28,507 |
| Other expenses | 583 | 39,653 | 190 | 40,426 |
| Permits | 92 | 923 | 25,756 | 26,771 |
| Photography | 3,390 | - | 2,013 | 5,403 |
| Postage and shipping | 7,776 | 12,787 | 13,806 | 34,369 |
| Printing and publications | 12,407 | 21,616 | 51,202 | 85,225 |
| Professional development | 9,361 | 7,604 | 7,686 | 24,651 |
| Salary and benefits | 699,390 | 556,222 | 418,099 | 1,673,711 |
| Rentals | 35,898 | 12,083 | - | 47,981 |
| Repairs and maintenance | 70,955 | 19,128 | 170 | 90,253 |
| Security | 97,071 | 9,332 | 360 | 106,763 |
| Signage | 18,404 | 553 | 47 | 19,004 |
| Storage | 5,961 | 1,164 | - | 7,125 |
| Supplies | 76,008 | 14,464 | 3,571 | 94,043 |
| Travel | 110,926 | 22,546 | 10,600 | 144,072 |
| Utilities | 165,182 | 35,838 | - | 201,020 |
| | <u>\$ 2,095,411</u> | <u>\$ 1,173,638</u> | <u>\$ 844,603</u> | <u>\$ 4,113,652</u> |

See accompanying notes to consolidated financial statements.