

Holocaust Museum Houston
Consolidated Financial Statements and Supplementary Schedules
For the Fiscal Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Holocaust Museum Houston

To the Board of Directors of
Holocaust Museum Houston Foundation
Houston, Texas

We have audited the accompanying consolidated financial statements of Holocaust Museum Houston (a nonprofit corporation) and Holocaust Museum Houston Foundation (a nonprofit corporation) (collectively, "Holocaust Museum" or the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, and cash flows for the fiscal years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Trustees of
Holocaust Museum Houston

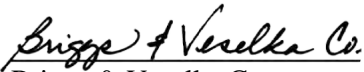
To the Board of Directors of
Holocaust Museum Houston Foundation
Re: Independent Auditors' Report

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 Holocaust Museum Houston Foundation as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial position, consolidating statements of activities and changes in net assets and consolidated statements of functional expenses in Schedules I - III, are presented for purposes of additional analysis and are not a required part of the consolidated 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 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

October 28, 2016

HOLOCAUST MUSEUM HOUSTON
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 496,146 | \$ 193,746 |
| Pledges receivable – capital campaign, net | 4,488,472 | 4,073,504 |
| Pledges receivable – other, net | 578,030 | 237,803 |
| Inventory, net | 49,743 | 43,229 |
| Prepaid expenses and other assets | 65,667 | 146,391 |
| Investments | 7,910,493 | 8,506,809 |
| Property and equipment, net | 6,426,280 | 6,368,351 |
| Collections | <u>-</u> | <u>-</u> |
| TOTAL ASSETS | <u>\$ 20,014,831</u> | <u>\$ 19,569,833</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 456,064 | \$ 529,958 |
| Deferred revenue | 5,633 | 14,183 |
| Note payable | <u>572,115</u> | <u>572,115</u> |
| Total liabilities | 1,033,812 | 1,116,256 |
| Net assets | | |
| Unrestricted | 6,133,446 | 5,639,129 |
| Unrestricted – Board-designated | 5,444,820 | 6,042,084 |
| Temporarily restricted | 5,123,433 | 5,033,567 |
| Permanently restricted | <u>2,279,320</u> | <u>1,738,797</u> |
| Total net assets | <u>18,981,019</u> | <u>18,453,577</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 20,014,831</u> | <u>\$ 19,569,833</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, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Support and revenues | | | | |
| Contributions | \$ 1,404,318 | \$ 521,684 | \$ 68,396 | \$ 1,994,398 |
| Contributions – capital campaign | - | 1,149,967 | 472,127 | 1,622,094 |
| Special events, net (revenues of \$1,895,898 less expenses of \$246,381) | 1,649,517 | - | - | 1,649,517 |
| Membership fees | 315,829 | - | - | 315,829 |
| Admissions, tours and programs | 277,214 | - | - | 277,214 |
| Book sales | 102,879 | - | - | 102,879 |
| Rental and other income | 155,304 | - | - | 155,304 |
| Investment return, net | <u>(231,125)</u> | <u>(89,581)</u> | <u>-</u> | <u>(320,706)</u> |
| | 3,673,936 | 1,582,070 | 540,523 | 5,796,529 |
| Net assets released from restrictions | <u>1,492,204</u> | <u>(1,492,204)</u> | <u>-</u> | <u>-</u> |
| Total support and revenues | 5,166,140 | 89,866 | 540,523 | 5,796,529 |
| Expenses | | | | |
| Program services | 2,714,245 | - | - | 2,714,245 |
| Management and general | 1,192,351 | - | - | 1,192,351 |
| Fundraising | <u>1,362,491</u> | <u>-</u> | <u>-</u> | <u>1,362,491</u> |
| Total expenses | <u>5,269,087</u> | <u>-</u> | <u>-</u> | <u>5,269,087</u> |
| Change in net assets | (102,947) | 89,866 | 540,523 | 527,442 |
| Net assets, beginning of year | <u>11,681,213</u> | <u>5,033,567</u> | <u>1,738,797</u> | <u>18,453,577</u> |
| NET ASSETS, END OF YEAR | <u>\$ 11,578,266</u> | <u>\$ 5,123,433</u> | <u>\$ 2,279,320</u> | <u>\$ 18,981,019</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, 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Support and revenues | | | | |
| Contributions | \$ 529,272 | \$ 756,084 | \$ 76,287 | \$ 1,361,643 |
| Contributions – capital campaign | - | 4,507,446 | - | 4,507,446 |
| Special events, net (revenues of \$2,003,697 less expenses of \$212,907) | 1,790,790 | - | - | 1,790,790 |
| Membership fees | 324,228 | - | - | 324,228 |
| Admissions, tours and programs | 272,954 | - | - | 272,954 |
| Book sales | 126,001 | - | - | 126,001 |
| Rental and other income | 150,582 | - | - | 150,582 |
| Investment return, net | <u>(59,427)</u> | <u>(16,410)</u> | <u>-</u> | <u>(75,837)</u> |
| | 3,134,400 | 5,247,120 | 76,287 | 8,457,807 |
| Net assets released from restrictions | <u>1,477,667</u> | <u>(1,477,667)</u> | <u>-</u> | <u>-</u> |
| Total support and revenues | 4,612,067 | 3,769,453 | 76,287 | 8,457,807 |
| Expenses | | | | |
| Program services | 2,548,698 | - | - | 2,548,698 |
| Management and general | 833,858 | - | - | 833,858 |
| Fundraising | <u>1,224,936</u> | <u>-</u> | <u>-</u> | <u>1,224,936</u> |
| Total expenses | <u>4,607,492</u> | <u>-</u> | <u>-</u> | <u>4,607,492</u> |
| Change in net assets | 4,575 | 3,769,453 | 76,287 | 3,850,315 |
| Net assets, beginning of year | <u>11,676,638</u> | <u>1,264,114</u> | <u>1,662,510</u> | <u>14,603,262</u> |
| NET ASSETS, END OF YEAR | <u>\$ 11,681,213</u> | <u>\$ 5,033,567</u> | <u>\$ 1,738,797</u> | <u>\$ 18,453,577</u> |

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

HOLOCAUST MUSEUM HOUSTON
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 527,442 | \$ 3,850,315 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Bad debt expense | 16,500 | - |
| Change in present value of pledges | (43,156) | 197,554 |
| Change in reserve for slow moving inventory | 41,945 | 16,471 |
| Depreciation | 219,413 | 201,747 |
| Contributions restricted for endowment | (540,523) | (76,287) |
| Net realized and unrealized loss on investments | 567,244 | 556,302 |
| Changes in operating assets and liabilities: | | |
| Pledges receivable – capital campaign | (388,312) | (4,271,058) |
| Pledges receivable – other | (340,227) | 212,105 |
| Inventory | (48,459) | (19,969) |
| Prepaid expenses and other assets | 80,724 | (76,207) |
| Accounts payable and accrued expenses | (73,894) | 187,506 |
| Deferred revenue | (8,550) | 9,183 |
| Net cash from operating activities | <u>10,147</u> | <u>787,662</u> |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (277,342) | (675,022) |
| Purchases of investments | (3,264,162) | (4,693,359) |
| Proceeds from sale of investments | 3,293,234 | 4,632,012 |
| Net cash from investing activities | <u>(248,270)</u> | <u>(736,369)</u> |
| Cash flows from financing activities | | |
| Contributions restricted for endowment | 540,523 | 76,287 |
| Payments on the line of credit | - | (196,853) |
| Net cash from financing activities | <u>540,523</u> | <u>(120,566)</u> |
| Net change in cash and cash equivalents | <u>302,400</u> | <u>(69,273)</u> |
| Cash and cash equivalents, beginning of year | <u>193,746</u> | <u>263,019</u> |
| Cash and cash equivalents, end of year | <u>\$ 496,146</u> | <u>\$ 193,746</u> |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 2,989 | \$ 3,968 |
| Noncash investing and financing activities: | | |
| Increase in value of deferred compensation plan | \$ - | \$ 8,932 |
| Distributions from the deferred compensation plan | \$ - | \$ 181,648 |

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

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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”) is a Texas nonprofit corporation. In December 2014, the Foundation legally assumed the name of Holocaust Museum Houston Foundation. 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, “Holocaust Museum” or “Organization”). 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 (GAAP).

Financial Statement Presentation – 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, the net assets of 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 their realizable value. Pledges that are expected to be collected in more than one year are recorded at the present value of estimated future cash flows. The present value of the estimated future cash flows is recorded as pledges receivable.

An allowance is made for uncollectible pledges receivable based on Holocaust Museum’s analysis of past collection experience and other judgmental factors. Based on these factors, the allowance for uncollectible pledges totaled \$101 and \$1,341 at June 30, 2016 and 2015, respectively.

Inventory – Inventory is valued at the lower of cost (moving weighted-average method) or market. Inventory is reported net of a reserve for slow-moving inventory of \$58,416 and \$16,471 at June 30, 2016 and 2015, respectively.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 statements 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, improvements and permanent exhibits 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 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 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 – Holocaust Museum accounts for revenues collected in the current period, but relating to future events, as deferred revenue.

Revenue Recognition – Holocaust Museum records contributions and revenue on an accrual basis. 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.

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 consolidated statements of activities and changes in net assets as net assets released from restrictions.

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 pledges receivable and 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. Holocaust Museum expensed \$204,760 and \$256,170 during the fiscal years ended June 30, 2016 and 2015, respectively, for advertising costs.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Federal Income Tax – 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, 2016 and 2015. Holocaust Museum files annual federal information returns.

Holocaust Museum records charges for uncertain tax positions when they are considered probable. Based on its evaluation, Holocaust Museum has concluded that there are no significant uncertain tax positions requiring recognition in the financial statements.

Holocaust Museum is subject to routine examinations of its returns; however, there are no examinations for any tax periods currently in progress.

Use of Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with 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. Significant estimates include, but are not limited to, the allowance for uncollectible pledges receivable, discounted present value of future pledges, reserve for slow-moving inventory, and estimated useful life of property and equipment.

Functional Expenses – The costs of providing Holocaust Museum’s various programs and supporting services have been summarized on a functional basis in the consolidated statements 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 Holocaust Museum to concentrations of credit risk. Investment securities consist primarily of mutual funds which could subject 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.

Concentrations of Credit Risk and Economic Outlook – Financial instruments that potentially subject Holocaust Museum to a significant concentration of credit risk consists primarily of cash and cash equivalents. At times, Holocaust Museum maintains deposits in federally insured financial institutions in excess of federally insured limits. 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.

Most of Holocaust Museum’s donors are located in Houston and its surrounding areas. Thus, its operations can be affected by the economic environment in the Greater Houston area, which was recently impacted by a downturn in the oil and gas industry. Holocaust Museum has worked to proactively address this matter by adopting a flexible budget for fiscal year ended June 30, 2017 that provides for certain expenditures only when sufficient revenues are raised. Management believes that it has the ability to raise the necessary funding to support its fiscal year ended June 30, 2017 budgeted operations and it also has the flexibility to adjust its operations and reduce costs if needed.

Reclassifications – Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Recent Accounting Pronouncements – In July 2015, the Financial Standards Accounting Board (FASB) issued Accounting Standards Update (ASU) No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which requires companies to measure inventory at lower of cost and net realizable value, versus lower of cost or market. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This update is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted, and the guidance should be applied prospectively. The Organization is currently evaluating the effect that ASU No. 2015-11 will have on its financial statements and disclosures.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue From Contracts With Customers: Deferral of the Effective Date (Topic 606)*, which deferred the effective date of ASU No. 2014-09 for all entities by one year. Therefore, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods beginning after December 15, 2019, for nonpublic entities. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. The Organization is assessing the method of adoption and the impact this new accounting guidance will have on its financial statements and related disclosures.

On February 25, 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize for all leases (with the exception of short-term leases) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis and 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. For nonpublic entities, the new standard is effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Organization is evaluating the effect the guidance will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. These amendments will change presentation and disclosure requirements for not-for-profit organizations to provide more relevant information about their resources (and changes in those resources) to donors, grantors, creditors, and other users. These will include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, liquidity and availability of resources, and the presentation of operating cash flows. ASU No. 2016-14 is effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments is permitted. The Organization is currently evaluating the effect that ASU No. 2016-14 will have on its financial statements and disclosures.

NOTE 2 – CASH AND CASH EQUIVALENTS

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

| | <u>2016</u> | <u>2015</u> |
|---------------------------------|-------------------|-------------------|
| Demand deposits | \$ 495,637 | \$ 193,237 |
| Money market funds | <u>509</u> | <u>509</u> |
| Total cash and cash equivalents | <u>\$ 496,146</u> | <u>\$ 193,746</u> |

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 – PLEDGES RECEIVABLE

In October 2014, the Museum’s Board of Trustees approved a capital campaign (*see Note 13*). Pledges receivable, net, consist mainly of pledges for the capital campaign, which total \$4,488,472 and \$4,073,504 at June 30, 2016 and 2015, respectively. The intention of the campaign is to expand and improve the permanent exhibits of the Museum and its building.

Pledges receivable for all campaigns are as follows at June 30:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Pledges receivable are expected to be collected as follows: | | |
| Receivables in less than one year | \$ 1,657,374 | \$ 1,140,535 |
| Receivables in one to five years | <u>3,591,500</u> | <u>3,369,667</u> |
| Total pledges receivable | 5,248,874 | 4,510,202 |
| Less: allowance for uncollectible pledges | (101) | (1,341) |
| Less: discount to net present value | <u>(182,271)</u> | <u>(197,554)</u> |
| Total pledges receivable, net | <u>\$ 5,066,502</u> | <u>\$ 4,311,307</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 of 2.5%.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Land | \$ 3,577,887 | \$ 3,577,887 |
| Building and building improvements | 4,466,719 | 4,461,127 |
| Furniture and equipment | 1,426,024 | 1,309,873 |
| Artwork | <u>96,364</u> | <u>50,104</u> |
| | 9,566,994 | 9,398,991 |
| Less: accumulated depreciation | <u>(3,857,479)</u> | <u>(3,653,748)</u> |
| Net depreciable assets | 5,709,515 | 5,745,243 |
| Construction in progress – Museum expansion | 337,399 | 258,279 |
| Construction in progress – permanent exhibits and other | <u>379,366</u> | <u>364,829</u> |
| Total property and equipment, net | <u>\$ 6,426,280</u> | <u>\$ 6,368,351</u> |

Depreciation expense amounted to \$219,413 and \$201,747 for the fiscal years ended June 30, 2016 and 2015, respectively.

NOTE 5 – 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.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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.
- **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, 2016 are as follows:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|---------------------|-----------------|----------------|---------------------|
| Investments | | | | |
| Blended equity mutual funds | \$ 1,562,362 | \$ - | \$ - | \$ 1,562,362 |
| Fixed income mutual funds | 806,022 | - | - | 806,022 |
| International equity mutual funds | 474,786 | - | - | 474,786 |
| Exchange-traded funds | 4,684,265 | - | - | 4,684,265 |
| Government money market mutual funds | 375,546 | - | - | 375,546 |
| Bonds | - | 7,512 | - | 7,512 |
| Total investments | <u>7,902,981</u> | <u>7,512</u> | - | <u>7,910,493</u> |
| Money market mutual funds held as cash equivalents | | | | |
| | <u>509</u> | - | - | <u>509</u> |
| Total at fair value | <u>\$ 7,903,490</u> | <u>\$ 7,512</u> | <u>\$ -</u> | <u>\$ 7,911,002</u> |

Financial instruments measured at fair value on a recurring basis at June 30, 2015 are as follows:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| Investments | | | | |
| Blended equity mutual funds | \$ 2,415,892 | \$ - | \$ - | \$ 2,415,892 |
| Fixed income mutual funds | 2,507,774 | - | - | 2,507,774 |
| International equity mutual funds | 1,315,659 | - | - | 1,315,659 |
| Exchange-traded funds | 1,965,964 | - | - | 1,965,964 |
| Government money market mutual funds | 294,082 | - | - | 294,082 |
| Bonds | - | 7,438 | - | 7,438 |
| Total investments | 8,499,371 | 7,438 | - | 8,506,809 |

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|---------------------|-----------------|----------------|---------------------|
| Money market mutual funds held as cash equivalents | <u>509</u> | <u>-</u> | <u>-</u> | <u>509</u> |
| Total at fair value | <u>\$ 8,499,880</u> | <u>\$ 7,438</u> | <u>\$ -</u> | <u>\$ 8,507,318</u> |

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.

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, 2016 and 2015.

NOTE 6 – INVESTMENT RETURN

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

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|--------------------|
| Interest and dividends | \$ 259,168 | \$ 492,965 |
| Realized and unrealized loss on investments | (567,244) | (556,302) |
| Custodial and management fees | <u>(12,630)</u> | <u>(12,500)</u> |
| Investment return, net | <u>\$ (320,706)</u> | <u>\$ (75,837)</u> |

NOTE 7 – LINE OF CREDIT

At June 30, 2015, the Museum had an unused unsecured line of credit in the amount of \$500,000 with variable interest at the three month LIBOR rate plus 2.125% (2.41% at June 30, 2015). On November 18, 2015, the Museum extended the line of credit with a new maturity date of November 16, 2016, and amended the interest rate to be calculated as the three month prime rate plus 0.25%. The Museum closed the line of credit during the fiscal year ended June 30, 2016.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

On December 28, 2015, the Museum entered into a \$500,000 unsecured line of credit agreement with a new bank. The line of credit has a maturity date of December 26, 2016, and bears interest calculated at the bank's prime rate (3.5% at June 30, 2016). At June 30, 2016 and 2015, there were no advances outstanding on either line of credit.

NOTE 8 – 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 in the amount of \$572,115. 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. At June 30, 2016 and 2015, the balance on the note payable is \$572,115.

The Museum also has accrued interest on the note payable prior to January 9, 2014, at 8% as called for under the original agreement. In accordance with the extension agreement, the Museum has not accrued interest after January 9, 2014. Accordingly, the Museum has recorded total accrued interest on the note payable of \$135,523 at June 30, 2016 and 2015, which is included in accounts payable and accrued expenses on the consolidated statements of financial position.

The balance of the note payable of \$572,115 and accrued interest of \$135,523 is due in full on January 9, 2017. The Museum is currently in negotiations with the City on an extension of time to fulfill its obligations to the City through specific improvements around the Clayton Library upon completion of the Museum expansion (*see Note 19*).

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

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

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Capital campaign – Museum expansion | \$ 4,378,707 | \$ 4,064,768 |
| Educational programs | 492,154 | 487,113 |
| Visitor and volunteer services | 76,901 | 143,545 |
| Lecture series | 80,708 | 100,847 |
| 20th anniversary | - | 19,200 |
| Conservation | 63,666 | 89,700 |
| Exhibits | 17,951 | 60,893 |
| Library | 2,518 | 7,337 |
| Other | <u>10,828</u> | <u>60,164</u> |
| Total temporarily restricted net assets | <u>\$ 5,123,433</u> | <u>\$ 5,033,567</u> |

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions during the fiscal years ended June 30, 2016 and 2015 by incurring expenses satisfying the restricted purposes specified by the donor as follows:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Capital campaign – Museum expansion | \$ 793,097 | \$ 442,678 |
| Educational programs | 197,888 | 376,747 |
| Visitor and volunteer services | 233,705 | 133,691 |
| Lecture series | 18,486 | 12,879 |
| 20th anniversary | 19,200 | - |
| Conservation | 11,452 | 21,126 |
| Exhibits | 91,882 | 113,519 |
| Library | 86,574 | 311,350 |
| Other | <u>39,920</u> | <u>65,677</u> |
| Total net assets released from restrictions | <u>\$ 1,492,204</u> | <u>\$ 1,477,667</u> |

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

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

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Teacher education | \$ 924,821 | \$ 452,692 |
| Conservation | 358,230 | 311,216 |
| Educational programs | 311,215 | 307,551 |
| Garden | 200,000 | 200,000 |
| Lecture series | 117,205 | 117,205 |
| Docent program | 100,565 | 100,565 |
| Yom HaShoah program | 143,002 | 143,002 |
| Visitors | 61,824 | 45,574 |
| Child survivors | 38,578 | 38,578 |
| Exhibits | 20,000 | 20,000 |
| Library | <u>3,880</u> | <u>2,414</u> |
| Total permanently restricted net assets | <u>\$ 2,279,320</u> | <u>\$ 1,738,797</u> |

NOTE 12 – ENDOWMENT FUNDS

The Foundation has donor-restricted endowment funds that are maintained in accordance with explicit donor stipulations. The Board of Directors 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, 2016 AND 2015

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, 2016 and 2015.

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, June 30, 2014 | \$ 6,448,526 | \$ 891,952 | \$ 1,662,510 | \$ 9,002,988 |
| Investment return | | | | |
| Interest and dividends | 353,280 | 139,967 | - | 493,247 |
| Net realized and unrealized loss | <u>(412,425)</u> | <u>(156,377)</u> | <u>-</u> | <u>(568,802)</u> |
| Total investment return | (59,145) | (16,410) | - | (75,555) |
| Contributions | 1,071 | 45,000 | 76,287 | 122,358 |
| Operating expenses | (30,853) | - | - | (30,853) |
| Releases of board-designated funds | (317,515) | - | - | (317,515) |
| Appropriations for expenditure | <u>-</u> | <u>(229,459)</u> | <u>-</u> | <u>(229,459)</u> |
| Endowment net assets, June 30, 2015 | 6,042,084 | 691,083 | 1,738,797 | 8,471,964 |

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Investment return | | | | |
| Interest and dividends | 183,850 | 75,990 | - | 259,840 |
| Net realized and unrealized loss | <u>(414,977)</u> | <u>(165,571)</u> | - | <u>(580,548)</u> |
| Total investment return | (231,127) | (89,581) | - | (320,708) |
| Contributions | 71 | 40,000 | 540,523 | 580,594 |
| Operating expenses | (47,650) | - | - | (47,650) |
| Releases of board-designated funds | (318,558) | - | - | (318,558) |
| Appropriations for expenditure | <u>-</u> | <u>(88,033)</u> | <u>-</u> | <u>(88,033)</u> |
| Endowment net assets, June 30, 2016 | <u>\$ 5,444,820</u> | <u>\$ 553,469</u> | <u>\$ 2,279,320</u> | <u>\$ 8,277,609</u> |

Endowment net asset composition as of June 30, 2016 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Board-designated endowment funds | \$ 5,444,820 | \$ - | \$ - | \$ 5,444,820 |
| Donor-restricted endowment funds | <u>-</u> | <u>553,469</u> | <u>2,279,320</u> | <u>2,832,789</u> |
| Total endowment net assets | <u>\$ 5,444,820</u> | <u>\$ 553,469</u> | <u>\$ 2,279,320</u> | <u>\$ 8,277,609</u> |

Endowment net asset composition as of June 30, 2015 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Board-designated endowment funds | \$ 6,042,084 | \$ - | \$ - | \$ 6,042,084 |
| Donor-restricted endowment funds | <u>-</u> | <u>691,083</u> | <u>1,738,797</u> | <u>2,429,880</u> |
| Total endowment net assets | <u>\$ 6,042,084</u> | <u>\$ 691,083</u> | <u>\$ 1,738,797</u> | <u>\$ 8,471,964</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 is 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 appropriates, the Foundation will attempt to fund such appropriation from unrestricted funds.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 are 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 13 – CAPITAL CAMPAIGN

In October 2014, the Museum’s Board of Trustees approved a capital campaign to fund the expansion and improvement of the permanent exhibits of the Museum and its building. The goal of the capital campaign is to raise approximately \$37,600,000, with \$25,900,000 to be used for campaign and construction related costs and \$11,700,000 for an endowment to be used to cover future operating expenses of the Museum. Unless otherwise directed by the donor, all contributions to the capital campaign are recorded as temporarily restricted net assets until the funds are expended. Any unexpended funds will be transferred to the Foundation and added to a quasi-endowment fund and be recorded as unrestricted – board-designated net assets.

The Museum has begun the design phase of the expansion and improvement of the permanent exhibits of the Museum and its building. The Museum has entered into multi-year contracts with both a design firm and an architect for this phase. These contracts may be terminated at any time with proper written notice. At June 30, 2016 and 2015, the Museum has incurred approximately \$337,000 and \$258,000, respectively, of design and architectural expenses, which are included in property and equipment on the consolidated statements of financial position.

During the fiscal years ended June 30, 2016 and 2015, the Museum received pledges in connection with the capital campaign of \$1,107,036 and \$4,555,000, respectively, which have been recorded as temporarily restricted contributions for capital expenditures. During the fiscal year ended June 30, 2016, the Foundation also received a permanent endowment in the amount of \$500,000 related to teacher education. During the fiscal year ended June 30, 2015, the Museum also received an in-kind contribution in the amount of \$150,000 for design services that were received and are included in property and equipment on the consolidated statements of financial position (*see Note 14*). At June 30, 2016 and 2015, \$4,670,743 and \$4,271,058, respectively, of the amounts pledged are outstanding and included in pledges receivable – capital campaign, net on the consolidated statements of financial position, and have been discounted to their net present value of \$4,488,472 and \$4,073,504, respectively (*see Note 3*).

The capital campaign support in the consolidated statements of activities and changes in net assets consists of the following for the fiscal years ended June 30:

| | <u>2016</u> | <u>2015</u> |
|---|----------------------------|---------------------|
| Pledges and contributions – temporarily restricted | \$ 1,107,036 | \$ 4,555,000 |
| Pledges and contributions – permanently restricted | 500,000 | - |
| Pledges and contributions – in-kind contributions | - | 150,000 |
| Change in present value discount – temporarily restricted | 42,931 | (197,554) |
| Change in present value discount – permanently restricted | <u>(27,873)</u> | <u>-</u> |
| Total capital campaign contributions, net | <u>\$ 1,622,094</u> | <u>\$ 4,507,446</u> |

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 statements of activities and changes in net assets, except for design services that are recorded as contributions in temporarily restricted net assets, at their estimated fair value during the fiscal years ended June 30:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|-------------------|-------------------|
| Advertising | \$ 95,596 | \$ 96,828 |
| Audio visual services | 84,945 | - |
| Catering | 4,284 | 1,747 |
| Computer services and software | 510 | 13,844 |
| Contract services | 14,127 | - |
| Design services | - | 150,000 |
| Legal fees | 7,387 | - |
| Repairs and maintenance | - | 7,676 |
| Supplies | 5,057 | 1,759 |
| Travel | <u>6,927</u> | <u>6,000</u> |
| Total in-kind contributions | <u>\$ 218,833</u> | <u>\$ 277,854</u> |

NOTE 15 – LEASING ACTIVITIES

The Museum currently leases a portion of its parking lot under short-term noncancelable operating leases. During the fiscal years ended June 30, 2016 and 2015, the Museum recorded \$21,586 and \$29,834, respectively, of rental income in rental and other income on the consolidated statements 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 years ended June 30, 2016 and 2015, the Museum recorded \$113,169 and \$100,718, respectively, of rental income in rental and other income on the consolidated statements of activities and changes in net assets.

Minimum future rentals on noncancelable operating leases with original terms of one year or longer (excluding contingent rentals) total \$8,640, which is expected to be received during the fiscal year ended June 30, 2017.

NOTE 16 – RETIREMENT PLANS

Effective July 1, 2005, the Museum had established a §457(b) deferred compensation plan. The amount of contribution made each plan year was within the Organization’s discretion. During the fiscal year ended June 30, 2015, the Museum did not make a contribution to this plan. In February 2015, the Museum terminated this plan and the \$181,648 of assets were distributed to the participants.

HOLOCAUST MUSEUM HOUSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Effective July 1, 2005, the Museum had 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 had been made to this plan since September 2010. Effective October 1, 2014, the Museum terminated its services with the provider of this plan.

Effective September 1, 2010, the Museum had established an additional §403(b) defined contribution plan that covered all full-time employees. An employee was eligible to participate in the plan and was fully vested upon completion of 1,000 hours of service. The Museum made contributions of 2% of employee compensation. Employees may have contributed amounts to the plan up to the limits established by the Code. Effective October 1, 2014, the Museum terminated its services with the provider of this plan.

Effective August 1, 2014, the Museum established a new §403(b) defined contribution plan that covers all employees working at least 1,000 hours during the fiscal year. An employee is eligible to participate in the plan within 90 days of employment and is fully vested immediately. The Museum matches 100% of employee contributions up to 3% of employee compensation and then 50% of employee contributions up to 6% of employee compensation. Employees may contribute amounts to the plan up to the limits established by the Code.

The Museum made contributions to retirement plans of approximately \$50,000 and \$42,000, during the fiscal years ended June 30, 2016 and 2015, respectively, which are included in salary and benefits on the consolidated statements of functional expenses.

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. No contributions and/or transfers were made by the Museum to the Foundation during the fiscal years ended June 30, 2016 and 2015.

The Foundation makes periodic grants to the Museum to support Museum operations. The Foundation's distributions to the Museum totaled \$442,491 and \$569,594 during the fiscal years ended June 30, 2016 and 2015, respectively. These transactions are eliminated within consolidation.

NOTE 18 – RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2016, a Board of Trustees member contributed \$84,945 of audio visual services (*see Note 14*) which are included as unrestricted contributions on the consolidated statements of activities and changes in net assets.

During the fiscal year ended June 30, 2015, a Board of Trustees member contributed \$150,000 of design services (*see Note 14*) toward the expansion and improvement of the permanent exhibits of the Museum and building, which were recorded as temporarily restricted contributions – capital campaign and were included in construction in progress.

During the fiscal years ended June 30, 2016 and 2015, \$625,000 and \$900,000, respectively, of the contributions received related to the capital campaign were from Board of Trustees members. At June 30, 2016 and 2015, the pledges receivable from these individuals amounted to \$953,391 and \$378,896, respectively, of pledges receivable – capital campaign.

NOTE 19 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 28, 2016, the date which the financial statements were available to be issued. Management has determined that no subsequent events require disclosure in these financial statements.

On October 19, 2016, the City of Houston unanimously passed an ordinance approving a development and construction agreement with the Museum, whereby the Museum will design and construct specific improvements around the Clayton Library rather than paying the note payable and accrued interest due January 9, 2017 (*see Note 8*). The agreement is in force for three years or until the Museum completes the improvements, whichever comes first. The improvements will be transferred to the City within thirty days after final completion and acceptance by the City, and the note payable and accrued interest will be forgiven in full.

Subsequent to year-end, Holocaust Museum had received approximately \$3,195,000 of additional pledges associated with the capital campaign described in *Note 13* that have not been recorded in the financial statements for the fiscal year ended June 30, 2016.

HOLOCAUST MUSEUM HOUSTON
SCHEDULE I – CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

| | <u>Museum</u> | <u>Foundation</u> | <u>Eliminations</u> | <u>Consolidated Total</u> |
|--|----------------------|---------------------|---------------------|-------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 477,066 | \$ 19,080 | \$ - | \$ 496,146 |
| Pledges receivable – capital campaign, net | 4,091,345 | 397,127 | - | 4,488,472 |
| Pledges receivable – other, net | 578,030 | - | - | 578,030 |
| Inventory, net | 49,743 | - | - | 49,743 |
| Prepaid expenses and other assets | 65,667 | - | - | 65,667 |
| Due from affiliate | 36,591 | - | (36,591) | - |
| Investments | - | 7,910,493 | - | 7,910,493 |
| Property and equipment, net | 6,426,280 | - | - | 6,426,280 |
| Collections | - | - | - | - |
| TOTAL ASSETS | <u>\$ 11,724,722</u> | <u>\$ 8,326,700</u> | <u>\$ (36,591)</u> | <u>\$ 20,014,831</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Liabilities | | | | |
| Accounts payable and accrued expenses | \$ 443,564 | \$ 12,500 | \$ - | \$ 456,064 |
| Due to affiliate | - | 36,591 | (36,591) | - |
| Deferred revenue | 5,633 | - | - | 5,633 |
| Note payable | <u>572,115</u> | <u>-</u> | <u>-</u> | <u>572,115</u> |
| Total liabilities | 1,021,312 | 49,091 | (36,591) | 1,033,812 |
| Net assets | | | | |
| Unrestricted | 6,133,446 | - | - | 6,133,446 |
| Unrestricted – Board-designated | - | 5,444,820 | - | 5,444,820 |
| Temporarily restricted | 4,569,964 | 553,469 | - | 5,123,433 |
| Permanently restricted | <u>-</u> | <u>2,279,320</u> | <u>-</u> | <u>2,279,320</u> |
| Total net assets | <u>10,703,410</u> | <u>8,277,609</u> | <u>-</u> | <u>18,981,019</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 11,724,722</u> | <u>\$ 8,326,700</u> | <u>\$ (36,591)</u> | <u>\$ 20,014,831</u> |

See accompanying notes to consolidated financial statements.

HOLOCAUST MUSEUM HOUSTON
SCHEDULE I – CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

| | <u>Museum</u> | <u>Foundation</u> | <u>Eliminations</u> | <u>Consolidated Total</u> |
|--|----------------------|---------------------|---------------------|-------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 172,810 | \$ 20,936 | \$ - | \$ 193,746 |
| Pledges receivable – capital campaign, net | 4,073,504 | - | - | 4,073,504 |
| Pledges receivable – other, net | 237,803 | - | - | 237,803 |
| Inventory, net | 43,229 | - | - | 43,229 |
| Prepaid expenses and other assets | 140,141 | 6,250 | - | 146,391 |
| Due from affiliate | 62,295 | 264 | (62,559) | - |
| Investments | - | 8,506,809 | - | 8,506,809 |
| Property and equipment, net | 6,368,351 | - | - | 6,368,351 |
| Collections | - | - | - | - |
| TOTAL ASSETS | <u>\$ 11,098,133</u> | <u>\$ 8,534,259</u> | <u>\$ (62,559)</u> | <u>\$ 19,569,833</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Liabilities | | | | |
| Accounts payable and accrued expenses | \$ 529,958 | \$ - | \$ - | \$ 529,958 |
| Due to affiliate | 264 | 62,295 | (62,559) | - |
| Deferred revenue | 14,183 | - | - | 14,183 |
| Note payable | 572,115 | - | - | 572,115 |
| Total liabilities | 1,116,520 | 62,295 | (62,559) | 1,116,256 |
| Net assets | | | | |
| Unrestricted | 5,639,129 | - | - | 5,639,129 |
| Unrestricted – Board-designated | - | 6,042,084 | - | 6,042,084 |
| Temporarily restricted | 4,342,484 | 691,083 | - | 5,033,567 |
| Permanently restricted | - | 1,738,797 | - | 1,738,797 |
| Total net assets | <u>9,981,613</u> | <u>8,471,964</u> | <u>-</u> | <u>18,453,577</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 11,098,133</u> | <u>\$ 8,534,259</u> | <u>\$ (62,559)</u> | <u>\$ 19,569,833</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, 2016**

| | Museum | | | Foundation | | | Eliminations | Consolidated Total |
|---------------------------------------|--------------|---------------------------|---------------------------|--------------|---------------------------|---------------------------|--------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Support and revenues | | | | | | | | |
| Contributions | \$ 1,846,838 | \$ 481,684 | \$ - | \$ 71 | \$ 40,000 | \$ 68,396 | \$ (442,591) | \$ 1,994,398 |
| Contributions – capital campaign | - | 1,149,967 | - | - | - | 472,127 | - | 1,622,094 |
| Special events, net | 1,649,517 | - | - | - | - | - | - | 1,649,517 |
| Membership fees | 315,829 | - | - | - | - | - | - | 315,829 |
| Admissions, tours and programs | 277,214 | - | - | - | - | - | - | 277,214 |
| Book sales | 102,879 | - | - | - | - | - | - | 102,879 |
| Rental and other income | 155,304 | - | - | - | - | - | - | 155,304 |
| Investment return, net | 2 | - | - | (231,127) | (89,581) | - | - | (320,706) |
| | 4,347,583 | 1,631,651 | - | (231,056) | (49,581) | 540,523 | (442,591) | 5,796,529 |
| Net assets released from restrictions | 1,404,171 | (1,404,171) | - | 88,033 | (88,033) | - | - | - |
| Total support and revenues | 5,751,754 | 227,480 | - | (143,023) | (137,614) | 540,523 | (442,591) | 5,796,529 |
| Expenses | | | | | | | | |
| Program services | 2,714,245 | - | - | - | - | - | - | 2,714,245 |
| Management and general | 1,180,701 | - | - | 454,241 | - | - | (442,591) | 1,192,351 |
| Fundraising | 1,362,491 | - | - | - | - | - | - | 1,362,491 |
| Total expenses | 5,257,437 | - | - | 454,241 | - | - | (442,591) | 5,269,087 |
| Change in net assets | 494,317 | 227,480 | - | (597,264) | (137,614) | 540,523 | - | 527,442 |
| Net assets, beginning of year | 5,639,129 | 4,342,484 | - | 6,042,084 | 691,083 | 1,738,797 | - | 18,453,577 |
| NET ASSETS, END OF YEAR | \$ 6,133,446 | \$ 4,569,964 | \$ - | \$ 5,444,820 | \$ 553,469 | \$ 2,279,320 | \$ - | \$ 18,981,019 |

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, 2015**

| | Museum | | | Foundation | | | Eliminations | Consolidated Total |
|---------------------------------------|---------------------|---------------------------|---------------------------|---------------------|---------------------------|---------------------------|------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Support and revenues | | | | | | | | |
| Contributions | \$ 1,097,795 | \$ 711,084 | \$ - | \$ 1,071 | \$ 45,000 | \$ 76,287 | \$ (569,594) | \$ 1,361,643 |
| Contributions – capital campaign | - | 4,507,446 | - | - | - | - | - | 4,507,446 |
| Special events, net | 1,790,790 | - | - | - | - | - | - | 1,790,790 |
| Membership fees | 324,228 | - | - | - | - | - | - | 324,228 |
| Admissions, tours and programs | 272,954 | - | - | - | - | - | - | 272,954 |
| Book sales | 126,001 | - | - | - | - | - | - | 126,001 |
| Rental and other income | 150,582 | - | - | - | - | - | - | 150,582 |
| Investment return, net | (282) | - | - | (59,145) | (16,410) | - | - | (75,837) |
| | <u>3,762,068</u> | <u>5,218,530</u> | <u>-</u> | <u>(58,074)</u> | <u>28,590</u> | <u>76,287</u> | <u>(569,594)</u> | <u>8,457,807</u> |
| Net assets released from restrictions | <u>1,248,208</u> | <u>(1,248,208)</u> | <u>-</u> | <u>229,459</u> | <u>(229,459)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total support and revenues | <u>5,010,276</u> | <u>3,970,322</u> | <u>-</u> | <u>171,385</u> | <u>(200,869)</u> | <u>76,287</u> | <u>(569,594)</u> | <u>8,457,807</u> |
| Expenses | | | | | | | | |
| Program services | 2,548,698 | - | - | - | - | - | - | 2,548,698 |
| Management and general | 825,625 | - | - | 577,827 | - | - | (569,594) | 833,858 |
| Fundraising | <u>1,224,936</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,224,936</u> |
| Total expenses | <u>4,599,259</u> | <u>-</u> | <u>-</u> | <u>577,827</u> | <u>-</u> | <u>-</u> | <u>(569,594)</u> | <u>4,607,492</u> |
| Change in net assets | 411,017 | 3,970,322 | - | (406,442) | (200,869) | 76,287 | - | 3,850,315 |
| Net assets, beginning of year | <u>5,228,112</u> | <u>372,162</u> | <u>-</u> | <u>6,448,526</u> | <u>891,952</u> | <u>1,662,510</u> | <u>-</u> | <u>14,603,262</u> |
| NET ASSETS, END OF YEAR | <u>\$ 5,639,129</u> | <u>\$ 4,342,484</u> | <u>\$ -</u> | <u>\$ 6,042,084</u> | <u>\$ 691,083</u> | <u>\$ 1,738,797</u> | <u>\$ -</u> | <u>\$ 18,453,577</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, 2016

| | Program | Management and General | Fundraising | Total |
|--------------------------------|---------------------|---------------------------|---------------------|---------------------|
| Advertising | \$ 160,172 | \$ 7,359 | \$ 37,229 | \$ 204,760 |
| Audio visual | 68,682 | 2,031 | 107,641 | 178,354 |
| Awards | 16,274 | 9,102 | 5,384 | 30,760 |
| Bad debt expense | - | - | 16,500 | 16,500 |
| Bank and merchant fees | 1,001 | 52,111 | - | 53,112 |
| Catering | 35,444 | 20,119 | 9,874 | 65,437 |
| Computer services and software | 53,740 | 80,060 | 23,933 | 157,733 |
| Contract services | 250,903 | 135,602 | 63,944 | 450,449 |
| Depreciation | 169,105 | 36,592 | 13,716 | 219,413 |
| Dues and subscriptions | 3,880 | 18,657 | 23,142 | 45,679 |
| Education sponsorships | 13,147 | - | - | 13,147 |
| Equipment | 56,814 | 2,371 | 2,647 | 61,832 |
| Honorariums | 61,805 | 7,289 | 150,990 | 220,084 |
| Insurance | 51,759 | 25,453 | 2,023 | 79,235 |
| Interest expense | - | 2,989 | - | 2,989 |
| Inventory purchases | 106,206 | - | - | 106,206 |
| Janitorial | 17,190 | 12,955 | - | 30,145 |
| Legal fees | 28,071 | - | 5,460 | 33,531 |
| Meals and entertainment | 12,379 | 11,457 | 9,148 | 32,984 |
| Other expenses | 60,708 | 528 | 24,000 | 85,236 |
| Permits | - | 1,106 | 1,540 | 2,646 |
| Photography | 6,085 | - | 3,629 | 9,714 |
| Postage and shipping | 27,357 | 4,256 | 36,608 | 68,221 |
| Printing and publications | 26,808 | 18,856 | 61,609 | 107,273 |
| Professional development | 10,599 | 6,721 | 5,545 | 22,865 |
| Salary and benefits | 1,003,474 | 658,053 | 723,141 | 2,384,668 |
| Rentals | 56,880 | 8,049 | 7,339 | 72,268 |
| Repairs and maintenance | 42,017 | 6,302 | 255 | 48,574 |
| Security | 64,768 | 9,319 | 300 | 74,387 |
| Signage | 6,640 | 300 | 70 | 7,010 |
| Storage | 34,072 | 8,474 | - | 42,546 |
| Supplies | 26,421 | 11,248 | 3,991 | 41,660 |
| Travel | 96,731 | 9,697 | 18,633 | 125,061 |
| Utilities | 145,113 | 25,295 | 4,200 | 174,608 |
| Totals | <u>\$ 2,714,245</u> | <u>\$ 1,192,351</u> | <u>\$ 1,362,491</u> | <u>\$ 5,269,087</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, 2015

| | Program | Management and General | Fundraising | Total |
|--------------------------------|---------------------|---------------------------|---------------------|---------------------|
| Advertising | \$ 197,179 | \$ 21,248 | \$ 37,743 | \$ 256,170 |
| Audio visual | 6,814 | 1,000 | 54,204 | 62,018 |
| Awards | 1,388 | 3,862 | 2,458 | 7,708 |
| Bank and merchant fees | - | 50,413 | - | 50,413 |
| Catering | 35,804 | 21,794 | 7,314 | 64,912 |
| Computer services and software | 66,701 | 21,290 | 54,531 | 142,522 |
| Contract services | 150,931 | 73,867 | 85,980 | 310,778 |
| Depreciation | 158,731 | 28,842 | 14,174 | 201,747 |
| Dues and subscriptions | 16,178 | 7,571 | 18,345 | 42,094 |
| Education sponsorships | 28,163 | - | - | 28,163 |
| Equipment | 23,023 | 1,382 | 2,123 | 26,528 |
| Honorariums | 91,950 | 250 | 1,000 | 93,200 |
| Insurance | 45,982 | 22,425 | 2,709 | 71,116 |
| Interest expense | 3,968 | - | - | 3,968 |
| Inventory purchases | 98,458 | - | - | 98,458 |
| Janitorial | 13,168 | 17,540 | - | 30,708 |
| Legal fees | 10,910 | 11,317 | 4,194 | 26,421 |
| Meals and entertainment | 16,941 | 9,883 | 5,433 | 32,257 |
| Other expenses | 10,674 | 21,995 | 27,331 | 60,000 |
| Permits | - | 1,083 | - | 1,083 |
| Photography | 7,575 | - | 3,087 | 10,662 |
| Postage and shipping | 25,548 | 6,584 | 23,891 | 56,023 |
| Printing and publications | 11,772 | 18,393 | 71,561 | 101,726 |
| Professional development | 7,939 | 11,784 | 11,336 | 31,059 |
| Salary and benefits | 873,833 | 403,143 | 756,056 | 2,033,032 |
| Rentals | 89,805 | 3,910 | 12,725 | 106,440 |
| Repairs and maintenance | 57,132 | 11,473 | 338 | 68,943 |
| Security | 79,267 | 8,307 | - | 87,574 |
| Signage | 8,768 | 27 | - | 8,795 |
| Storage | 61,653 | 4,617 | - | 66,270 |
| Supplies | 38,765 | 18,124 | 5,511 | 62,400 |
| Travel | 169,353 | 6,445 | 21,667 | 197,465 |
| Utilities | 140,325 | 25,289 | 1,225 | 166,839 |
| Totals | <u>\$ 2,548,698</u> | <u>\$ 833,858</u> | <u>\$ 1,224,936</u> | <u>\$ 4,607,492</u> |

See accompanying notes to consolidated financial statements.