

**National September 11 Memorial and Museum
at the World Trade Center Foundation, Inc.**

Financial Statements

December 31, 2012 and 2011

Independent Auditors' Report

**Board of Directors
National September 11 Memorial and Museum
at the World Trade Center Foundation, Inc.**

We have audited the accompanying financial statements of the National September 11 Memorial and Museum at the World Trade Center Foundation, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National September 11 Memorial and Museum at the World Trade Center Foundation, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

O'Connor Davies, LLP

New York, New York
April 17, 2013

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**National September 11 Memorial and Museum
at the World Trade Center Foundation, Inc.**

Statements of Financial Position

	December 31,	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 14,192,728	\$ 33,557,303
Prepaid expenses and other assets	4,370,999	3,082,781
Government grant receivables	26,124,416	17,473,755
Contributions receivable, net	18,076,497	26,938,118
Due from Port Authority of New York and New Jersey	-	21,230,320
Property and equipment, net	306,603,641	318,516,496
Construction in progress	332,183,696	268,458,364
	\$ 701,551,977	\$ 689,257,137
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 31,753,498	\$ 55,349,010
Accrued payroll and related liabilities	620,994	590,263
Due to Port Authority of New York and New Jersey	15,163,458	-
Deferred rent	112,227	141,602
Total Liabilities	47,650,177	56,080,875
Net Assets		
Unrestricted	632,166,637	608,400,185
Temporarily Restricted		
Purpose restricted	4,578,899	2,457,721
Time restricted	17,156,264	22,318,356
Total Temporarily Restricted	21,735,163	24,776,077
Total Net Assets	653,901,800	633,176,262
	\$ 701,551,977	\$ 689,257,137

See notes to financial statements

**National September 11 Memorial and Museum
at the World Trade Center Foundation, Inc.**

Statements of Activities

	Year Ended December 31, 2012			Year Ended December 31, 2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Contributions	\$ 10,878,697	\$ 9,228,336	\$ 20,107,033	\$ 13,513,234	\$ 6,035,308	\$ 19,548,542
Port Authority	18,394,629	-	18,394,629	14,012,478	-	14,012,478
Government grants	31,417,684	-	31,417,684	39,738,819	-	39,738,819
In-kind contributions	125,000	1,026,036	1,151,036	460,461	4,119,268	4,579,729
Special events, net of expenses of \$845,704 and \$1,045,521	1,064,626	875,000	1,939,626	1,900,364	1,500,000	3,400,364
Merchandise sales, net of cost of goods sold of \$3,722,610 and \$2,393,060	6,750,148	-	6,750,148	3,995,746	-	3,995,746
Interest income	64,107	-	64,107	187,434	-	187,434
Other income	49,288	-	49,288	71,844	-	71,844
Net assets released from restrictions	<u>14,170,286</u>	<u>(14,170,286)</u>	<u>-</u>	<u>24,552,653</u>	<u>(24,552,653)</u>	<u>-</u>
Total Revenue and Support	<u>82,914,465</u>	<u>(3,040,914)</u>	<u>79,873,551</u>	<u>98,433,033</u>	<u>(12,898,077)</u>	<u>85,534,956</u>
EXPENSES						
Program	51,844,512	-	51,844,512	29,788,900	-	29,788,900
Management and general	3,397,885	-	3,397,885	2,585,940	-	2,585,940
Fundraising	<u>3,738,811</u>	<u>-</u>	<u>3,738,811</u>	<u>4,508,698</u>	<u>-</u>	<u>4,508,698</u>
Total Expenses	<u>58,981,208</u>	<u>-</u>	<u>58,981,208</u>	<u>36,883,538</u>	<u>-</u>	<u>36,883,538</u>
Change in Net Assets before Collections Activities	23,933,257	(3,040,914)	20,892,343	61,549,495	(12,898,077)	48,651,418
Museum collections activities	<u>(166,805)</u>	<u>-</u>	<u>(166,805)</u>	<u>(65,850)</u>	<u>-</u>	<u>(65,850)</u>
Change in Net Assets	23,766,452	(3,040,914)	20,725,538	61,483,645	(12,898,077)	48,585,568
NET ASSETS						
Beginning of year	<u>608,400,185</u>	<u>24,776,077</u>	<u>633,176,262</u>	<u>546,916,540</u>	<u>37,674,154</u>	<u>584,590,694</u>
End of year	<u>\$ 632,166,637</u>	<u>\$ 21,735,163</u>	<u>\$ 653,901,800</u>	<u>\$ 608,400,185</u>	<u>\$ 24,776,077</u>	<u>\$ 633,176,262</u>

See notes to financial statements

**National September 11 Memorial and Museum
at the World Trade Center Foundation, Inc.**

Statements of Functional Expenses

	Year Ended December 31, 2012				Year Ended December 31, 2011			
	Program	Management and General	Fundraising	Total Expenses	Program	Management and General	Fundraising	Total Expenses
Salaries	\$ 8,854,670	\$ 1,380,141	\$ 1,224,505	\$ 11,459,316	\$ 6,155,274	\$ 1,044,329	\$ 1,281,831	\$ 8,481,434
Payroll taxes and fringe benefits	1,911,528	469,131	277,324	2,657,983	1,251,243	356,016	285,896	1,893,155
Occupancy costs	3,576,673	94,698	133,947	3,805,318	2,160,176	105,875	168,649	2,434,700
Insurance	743,934	59,595	51,082	854,611	433,157	41,417	46,595	521,169
Professional and other fees	1,578,486	234,655	424,773	2,237,914	1,637,269	210,395	469,421	2,317,085
Engineering and janitorial services	3,663,603	-	-	3,663,603	1,687,659	-	-	1,687,659
Security	6,548,205	-	17,493	6,565,698	3,094,928	-	20,636	3,115,564
Information technology	1,272,610	516,701	194,482	1,983,793	921,731	407,490	140,495	1,469,716
Marketing and advertising	317,438	4,439	255,239	577,116	625,858	5,182	614,496	1,245,536
Commemorative programmatic events	1,166,047	-	-	1,166,047	1,676,487	-	-	1,676,487
Repairs and maintenance	1,695,249	3,525	9,897	1,708,671	200,033	6,510	17,168	223,711
Office supplies	316,242	51,843	21,397	389,482	317,567	73,077	38,096	428,740
Postage	141,118	13,940	400,614	555,672	46,714	10,582	642,365	699,661
Printing	51,968	10,490	261,816	324,274	88,824	20,509	432,051	541,384
Telephone and internet	301,190	86,231	41,313	428,734	235,966	41,308	31,761	309,035
Dues and subscriptions	60,254	28,462	33,344	122,060	58,223	25,764	22,403	106,390
Travel and meetings	150,333	23,232	118,679	292,244	152,309	60,828	157,589	370,726
Grants	38,219	-	-	38,219	28,864	-	-	28,864
Depreciation	17,766,273	416,191	251,593	18,434,057	8,758,078	146,146	117,693	9,021,917
Expenses related to Superstorm Sandy net of insurance proceeds of \$1,050,000	1,285,131	-	-	1,285,131	-	-	-	-
Other expenses	405,341	4,611	21,313	431,265	258,540	30,512	21,553	310,605
Total Expenses	\$ 51,844,512	\$ 3,397,885	\$ 3,738,811	\$ 58,981,208	\$ 29,788,900	\$ 2,585,940	\$ 4,508,698	\$ 36,883,538

See notes to financial statements

**National September 11 Memorial and Museum
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Statements of Cash Flows

	Year Ended December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 20,725,538	\$ 48,585,568
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	18,434,057	9,021,917
Loss on disposal of fixed assets	395,260	6,940
In-kind rent	(1,195,492)	(2,382,505)
In-kind intellectual property rights	-	(75,000)
In-kind property and equipment	(303,531)	(465,848)
In-kind construction in progress	(722,505)	(369,564)
Prepaid expenses and other assets	(1,315,370)	(2,234,613)
Government grant receivables	(8,650,661)	23,169,198
Due to (from) Port Authority of New York and New Jersey	36,393,778	(26,389,362)
Contributions receivable	10,057,113	20,496,187
Accounts payable and accrued expenses	(49,662,064)	(37,441,460)
Accrued payroll and related liabilities	30,731	352,996
Deferred rent	(29,375)	141,602
Net Cash from Operating Activities	24,157,479	32,416,056
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	20,771,973
Purchase of property and equipment	(6,617,929)	(9,932,158)
Construction in progress	(36,904,125)	(99,946,479)
Net Cash from Investing Activities	(43,522,054)	(89,106,664)
Net Change in Cash and Cash Equivalents	(19,364,575)	(56,690,608)
CASH AND CASH EQUIVALENTS		
Beginning of year	33,557,303	90,247,911
End of year	\$ 14,192,728	\$ 33,557,303
SUPPLEMENTAL CASH FLOWS INFORMATION		
Non Cash Investing Activities		
Accrued construction in progress	\$ 26,066,552	\$ 63,371,076

**National September 11 Memorial and Museum
at the World Trade Center Foundation, Inc.**

Notes to Financial Statements
December 31, 2012 and 2011

1. Organization and Tax Status

The National September 11 Memorial and Museum at the World Trade Center Foundation, Inc. (the "Organization") was incorporated on April 7, 2003, to own and raise money to fund the construction, operations, programming, and maintenance of the National September 11 Memorial, Memorial Museum, Museum Pavilion and other cultural facilities at the World Trade Center site.

The Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code as a publicly supported organization as described in Section 509(a).

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments with a maturity of three months or less and which are available for operations to be cash equivalents. The carrying amounts reported in the statement of financial position for cash and cash equivalents approximate cost.

Inventory

Merchandise inventory is valued at the lower of weighted average cost or market.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is established for contributions receivable where there exists doubt as to whether an amount will be fully collected. The determination of this allowance is an estimate based on the Organization's historical experience, review of account balances and expectations relative to collections.

**National September 11 Memorial and Museum
at the World Trade Center Foundation, Inc.**

Notes to Financial Statements
December 31, 2012 and 2011

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost, or in the case of donations, at fair value at the date of the gift. The Organization capitalizes all purchases of property and equipment greater than \$5,000. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets which range from 3 to 5 years. Leasehold improvements are amortized over the terms of the lease agreement.

The Organization capitalizes its Memorial Plaza over the estimated useful lives of the assets, which range from 15 to 40 years.

Construction in Progress

Construction in progress includes all costs associated with the construction of the memorial, memorial museum and museum pavilion. Upon substantial completion, the cost of each project phase will be depreciated over its estimated useful life on a straight-line basis.

Net Asset Presentation

The Organization's financial statements distinguish between unrestricted, temporarily restricted and permanently restricted net assets. Net assets consist of the following:

Unrestricted – Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in achieving the primary objective of the Organization.

Temporarily Restricted – Net assets that are subject to donor-imposed stipulations that will be met either by passage of time or by actions of the Organization. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statements of activities as net assets released from restrictions.

Permanently Restricted – Net assets that are subject to donor-imposed stipulations that do not expire by passage of time. At December 31, 2012 and 2011, the Organization had no permanently restricted net assets.

Contributions

Contributions and unconditional promises to give are recorded as revenue when signed pledges are made and are classified as unrestricted, temporarily restricted, or permanently restricted support. Verbal and written intentions to contribute material amounts are not recorded in these financial statements because they do not meet the Organization's criteria for recognition.

**National September 11 Memorial and Museum
at the World Trade Center Foundation, Inc.**

Notes to Financial Statements
December 31, 2012 and 2011

2. Summary of Significant Accounting Policies (continued)

Contributions (continued)

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates applicable to the years in which the promises are received and consider market and credit risk as applicable. Amortization of the discounts and changes in allowance for doubtful accounts are included in contribution revenue on the statements of activities.

Revenue from Government Grants

Revenue from government grants is recorded as earned pursuant to terms of existing agreements. Advances received from government agencies in excess of expenditures incurred for grants in progress are reported as deferred revenue.

In-Kind Contributions

Donated services are reported in the financial statements at fair value if those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and that would typically be purchased if not provided by donation.

Functional Allocation of Expenses

The costs of providing the program and other activities of the Organization have been summarized on a functional basis. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Collections

The value of the Organization's collection is not reflected as an asset in the statements of financial position, and gifts of collection items are excluded from revenue in the statements of activities. Purchases of collection items are recorded in the year in which the items were acquired as decreases to unrestricted net assets in the statements of activities. Pursuant to the Organization's collections and management policy, proceeds from deaccessions are to be used exclusively to acquire other items for the collection and will be recorded as unrestricted net assets designated for acquisitions of collection items.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were \$119,808 and \$387,663 for 2012 and 2011.

**National September 11 Memorial and Museum
at the World Trade Center Foundation, Inc.**

Notes to Financial Statements
December 31, 2012 and 2011

2. Summary of Significant Accounting Policies (continued)

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition or disclosure. The Organization is no longer subject to examination by the applicable taxing jurisdictions for years prior to 2009.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is April 17, 2013.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and receivables. The Organization places its cash with various financial institutions and limits the amount of credit exposure by any one financial institution. Cash and certificate of deposit held with banks in excess of Federal Deposit Insurance Coverage or the temporary U.S. Treasury Department guaranty program insurance limits totaled approximately \$13,700,000 and \$30,226,000 at December 31, 2012 and 2011.

Concentrations of credit risk with respect to receivables are generally diversified due to the large number of entities and individuals composing the Organization's program and donor base. The Organization performs ongoing credit evaluations and writes off uncollectible amounts as they become known.

4. Government Grant Receivables

Government grant receivables consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
U.S. Department of Housing and Urban Development ("HUD") passed through Lower Manhattan Development Corp.	\$ 19,238,415	\$ 6,498,870
Empire State Development Corporation	6,870,801	10,482,935
Other	<u>15,200</u>	<u>491,950</u>
	<u>\$ 26,124,416</u>	<u>\$ 17,473,755</u>

For the years ended December 31, 2012 and 2011, the HUD grant represented 65% and 16% of government grants revenue.

**National September 11 Memorial and Museum
at the World Trade Center Foundation, Inc.**

Notes to Financial Statements
December 31, 2012 and 2011

5. Contributions Receivable, Net

Contributions receivable, net consist of the following at December 31:

	2012	2011
Due within:		
Up to one year	\$ 11,876,733	\$ 16,162,956
One to five years	8,023,200	13,399,247
	19,899,933	29,562,203
Present value discount	(336,240)	(532,226)
Allowance for doubtful accounts	(1,487,196)	(2,091,859)
Contributions receivable, net	\$ 18,076,497	\$ 26,938,118

The discount rates used for pledges outstanding through December 31, 2012, range from 0.12% to 5.0%.

6. Property and Equipment

Property and equipment at December 31 consist of the following:

	2012	2011
Memorial plaza property	\$ 316,342,340	\$ 316,033,369
Leasehold improvements	5,643,684	4,996,308
Computer hardware and software	11,298,585	6,447,738
Furniture and equipment	1,496,124	1,110,635
	334,780,733	328,588,050
Accumulated depreciation	(28,177,092)	(10,071,554)
	\$ 306,603,641	\$ 318,516,496

**National September 11 Memorial and Museum
at the World Trade Center Foundation, Inc.**

Notes to Financial Statements
December 31, 2012 and 2011

7. In-Kind Contributions

In-kind contributions for the years ended December 31 are as follows:

	2012	2011
Rent	\$ -	\$ 3,336,355
Furniture and equipment	303,531	540,848
Advertising space	-	131,405
Construction in progress (CIP)	722,505	369,564
Inventory	-	52,074
Supplies	-	48,365
Services	-	55,000
Other	125,000	46,118
	\$ 1,151,036	\$ 4,579,729

A member of the Organization's board of directors is a board member of a firm that provides use of office space at no charge to the Organization.

Included in CIP and property and equipment, net, in the statements of financial position, are \$1,540,599 and \$892,962 of capitalized in-kind contributions at December 31, 2012 and 2011.

8. Retirement Plans

The Organization has a 403(b) defined contribution retirement plan for all eligible employees. Under the provisions of this plan, the Organization contributed 4% of participants' earnings in 2012 and 2011. The Organization also contributed under a voluntary matching program up to a maximum of 6% in 2012 and 2011. Plan expense approximated \$796,000 and \$639,000 for 2012 and 2011.

9. Operating Lease

The Organization rents space for its Preview Site and its Visitor Center at 90 West Street under the terms of lease agreements expiring in 2014. Future minimum lease payments under these agreements are as follows:

2013	\$ 692,922
2014	133,626
	\$826,548

**National September 11 Memorial and Museum
at the World Trade Center Foundation, Inc.**

Notes to Financial Statements
December 31, 2012 and 2011

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following at December 31:

	2012	2011
To benefit planning for cultural institutions at the World Trade Center site	\$ 15,564	\$ 15,564
Interior fit-out and exhibition funds	3,331,657	2,442,157
Plaza trees maintenance fund	1,231,678	1,106,000
Donor imposed time restrictions	17,156,264	21,212,356
	\$21,735,163	\$24,776,077

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose specified by the donor or as a result of the expiration of donor imposed time restrictions as follows:

	2012	2011
Interior fit-out and exhibition funds	\$ 129,322	\$ 395,200
Donor imposed time restrictions	14,040,964	24,157,453
	\$14,170,286	\$24,552,653

11. Collections Activities

The Organization is in the process of assembling a permanent collection and has instituted a collections management policy to define the scope and intellectual framework of content assets and the procedures by which these materials are accessioned, catalogued and preserved. Through leadership of the Board and staff, the Organization strives to establish, preserve and document primary records, material evidence, spoken testimony and other wide-ranging cultural documentation related to the February 26, 1993 and September 11, 2001 terrorist attacks, the historical context leading up to them, and their aftermath and ongoing repercussions. The Organization also collects artifacts, spoken remembrances and other materials which honor and commemorate the victims of the September 11, 2001 and February 26, 1993 terrorist attacks and their legacies. The Organization makes its collection available as loans to other museums and presenting institutions, in the U.S. and abroad, that meet our security and environmental criteria. The collection is also available, through its catalogue and by appointment, to the public for research purposes and in cooperation with our professional staff and school educators for the creation of lesson plans that are then made available through our website. When the Museum is fully open to the public, its collections will also be used internally in educational and public programs for the benefit of visitors.

**National September 11 Memorial and Museum
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Notes to Financial Statements
December 31, 2012 and 2011

11. Collections Activities (*continued*)

In 2012 and 2011, the Organization spent \$166,805 and \$65,850 on acquisitions of collection items. These acquisitions were funded in part by temporarily restricted cash contributions (see Note 11).

12. Contingencies

The Organization is involved in a legal action. The Organization believes it has defenses for such claim and that the claim as it relates to the Organization is substantially without merit. In addition, another party named in the action is obligated to indemnify the Organization in connection with the action.

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