

**DALLAS HOLOCAUST MUSEUM/
CENTER FOR EDUCATION AND TOLERANCE**

**Financial Statements
As of and For the Years Ended
December 31, 2013 and 2012**

(With Independent Auditor's Report)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Dallas Holocaust Museum/
Center for Education and Tolerance

We have audited the accompanying financial statements of the Dallas Holocaust Museum/Center for Education and Tolerance (DHM/CET), which comprise the statements of financial position as of December 31, 2013 and 2012 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.

Auditor's 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 audits 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 auditor's 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 DHM/CET as of December 31, 2013 and 2012, 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.

Hartman Leito + Bolt, LLP

May 14, 2014
Dallas, Texas

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE
Statements of Financial Position
December 31, 2013 and 2012

	2013	2012
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,139,350	\$ 837,452
Pledges receivable, net	964,419	59,726
Other receivables	72,235	35,081
Inventory	6,594	8,763
Prepaid expenses	41,396	68,209
Museum Artifacts (Note 1)	-	-
Property and equipment, net	6,752,847	3,110,419
Investments designated by the Board of Directors as endowment	938,864	856,787
Investments restricted by donors as endowment	87,362	77,514
	\$ 10,003,067	\$ 5,053,951
Total assets	\$ 10,003,067	\$ 5,053,951
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 122,157	\$ 44,102
Capital lease obligation	12,578	-
Note payable	4,090,000	-
	4,224,735	44,102
Total liabilities	4,224,735	44,102
COMMITMENTS AND CONTINGENCIES		
	-	-
NET ASSETS:		
Unrestricted	4,425,157	4,845,093
Temporarily restricted	1,267,516	89,604
Permanently restricted	85,659	75,152
	5,778,332	5,009,849
Total net assets	5,778,332	5,009,849
Total liabilities and net assets	\$ 10,003,067	\$ 5,053,951

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

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE
Statement of Activities
For the Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT:				
Contributions	\$ 327,926	\$ 1,096,360	\$ 100	\$ 1,424,386
In-kind contributions	168,054	-	-	168,054
Grants	56,044	105,190	-	161,234
Special events, net	661,671	-	-	661,671
Educational programs and store sales, net	48,647	-	-	48,647
Temporary exhibit revenue	34,126	-	-	34,126
Memberships	263,872	-	-	263,872
Admissions	299,274	-	-	299,274
Parking lot revenue, net	53,076	-	-	53,076
Investment income	128,106	1,438	8,310	137,854
Transfers required by donor endowment	-	(2,097)	2,097	-
Net assets released from restrictions	22,979	(22,979)	-	-
Total revenues and support	<u>2,063,775</u>	<u>1,177,912</u>	<u>10,507</u>	<u>3,252,194</u>
EXPENSES:				
Education	1,307,527	-	-	1,307,527
Fundraising	408,074	-	-	408,074
Administrative	233,004	-	-	233,004
Total expenses	<u>1,948,605</u>	<u>-</u>	<u>-</u>	<u>1,948,605</u>
Change in net assets before loss on writeoff of assets	115,170	1,177,912	10,507	1,303,589
Loss on writeoff of assets	<u>(535,106)</u>	<u>-</u>	<u>-</u>	<u>(535,106)</u>
Change in net assets	(419,936)	1,177,912	10,507	768,483
Net assets at beginning of year	<u>4,845,093</u>	<u>89,604</u>	<u>75,152</u>	<u>5,009,849</u>
Net assets at end of year	<u>\$ 4,425,157</u>	<u>\$ 1,267,516</u>	<u>\$ 85,659</u>	<u>\$ 5,778,332</u>

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

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE
Statement of Activities
For the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT:				
Contributions	\$ 40,395	\$ -	\$ -	\$ 40,395
In-kind contributions	43,049	-	-	43,049
Grants	54,185	23,342	-	77,527
Special events, net	730,135	-	-	730,135
Educational programs and store sales, net	36,161	-	-	36,161
Temporary exhibit revenue	32,700	-	-	32,700
Memberships	222,887	-	-	222,887
Admissions	255,150	-	-	255,150
Parking lot revenue, net	36,362	-	-	36,362
Investment income	85,205	1,250	17,148	103,603
Net assets released from restrictions	6,442	(6,442)	-	-
Total revenues and support	<u>1,542,671</u>	<u>18,150</u>	<u>17,148</u>	<u>1,577,969</u>
EXPENSES:				
Education	937,173	-	-	937,173
Fundraising	297,206	-	-	297,206
Administrative	203,032	-	-	203,032
Total expenses	<u>1,437,411</u>	<u>-</u>	<u>-</u>	<u>1,437,411</u>
Change in net assets before loss on writeoff of assets	105,260	18,150	17,148	140,558
Loss on writeoff of assets	<u>(631)</u>	<u>-</u>	<u>-</u>	<u>(631)</u>
Change in net assets	104,629	18,150	17,148	139,927
Net assets at beginning of year	<u>4,740,464</u>	<u>71,454</u>	<u>58,004</u>	<u>4,869,922</u>
Net assets at end of year	<u>\$ 4,845,093</u>	<u>\$ 89,604</u>	<u>\$ 75,152</u>	<u>\$ 5,009,849</u>

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

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE
Statement of Functional Expenses
For the Year Ended December 31, 2013

	<u>Education</u>	<u>Fundraising</u>	<u>Administrative</u>	<u>Total</u>
Salaries and benefits	\$ 609,021	\$ 187,392	\$ 140,544	\$ 936,957
Advertising and publicity	260,811	46,026	-	306,837
Facility and occupancy	158,872	9,771	29,311	197,954
Teacher workshops and education	67,128	36,878	-	104,006
Professional fees	54,104	18,023	29,647	101,774
Travel, meals, and special event entertainment	7,753	50,967	2,563	61,283
Printing, copying, and postage	11,063	38,102	3,688	52,853
Depreciation	39,866	2,492	7,475	49,833
Temporary exhibits	35,112	-	-	35,112
Computer and software expense	17,226	1,076	3,230	21,532
Bank charges and investment fees	14,603	3,185	2,267	20,055
Other program and event costs	8,125	4,454	3,897	16,476
Insurance	13,092	818	2,455	16,365
Supplies	5,608	7,177	1,869	14,654
Dues and subscriptions	5,143	1,713	1,713	8,569
Board, volunteer and meetings	-	-	4,345	4,345
Total expenses	<u>\$ 1,307,527</u>	<u>\$ 408,074</u>	<u>\$ 233,004</u>	<u>\$ 1,948,605</u>

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

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE
Statement of Functional Expenses
For the Year Ended December 31, 2012

	<u>Education</u>	<u>Fundraising</u>	<u>Administrative</u>	<u>Total</u>
Salaries and benefits	\$ 519,503	\$ 159,847	\$ 119,887	\$ 799,237
Advertising and publicity	91,216	16,097	-	107,313
Facility and occupancy	139,395	8,576	25,724	173,695
Teacher workshops and education	4,222	-	1,029	5,251
Professional fees	30,075	9,630	24,326	64,031
Travel, meals, and special event entertainment	8,194	37,977	1,339	47,510
Printing, copying, and postage	13,085	43,144	4,362	60,591
Depreciation	39,858	2,491	7,473	49,822
Temporary exhibits	14,480	-	-	14,480
Computer and software expense	24,316	1,521	4,559	30,396
Bank charges and investment fees	12,745	2,905	2,042	17,692
Other program and event costs	23,516	3,639	798	27,953
Insurance	9,156	572	1,717	11,445
Supplies	5,891	5,200	1,964	13,055
Dues and subscriptions	1,521	507	507	2,535
Board, volunteer and meetings	-	-	7,305	7,305
Bad debt	-	5,100	-	5,100
Total Expenses	\$ 937,173	\$ 297,206	\$ 203,032	\$ 1,437,411

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

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 768,483	\$ 139,927
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions to permanently restricted endowments	(100)	-
Depreciation	49,833	49,822
Loss on writeoff of assets	535,106	631
Bad debt expense	-	5,100
Net realized and unrealized gain on investments	(114,034)	(81,520)
Changes in operating assets and liabilities:		
(Increase) decrease in pledges receivable	(904,693)	38,974
(Increase) decrease in other receivables	(37,154)	30,804
Decrease in inventory	2,169	1,152
Decrease (increase) in prepaid expenses	26,813	(54,576)
Increase in accounts payable and accrued expenses	78,055	24,485
Net cash provided by operating activities	404,478	154,799
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(23,405)	(32,621)
Proceeds from sales and maturities of investments	45,514	43,165
Purchases of property and equipment	(124,538)	(3,343)
Net cash (used in) provided by investing activities	(102,429)	7,201
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions to permanently restricted endowments	100	-
Principal payments on capital lease obligation	(251)	-
Net cash used in financing activities	(151)	-
Net increase in cash and cash equivalents	301,898	162,000
Cash and cash equivalents at beginning of year	837,452	675,452
Cash and cash equivalents at end of year	\$ 1,139,350	\$ 837,452
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 39,572	\$ -
Cash paid for income tax, net of refunds	\$ 687	\$ 9,720
Non-cash investing and financing activities:		
Land purchased through note payable	\$ (4,090,000)	\$ -
Equipment purchased through capital lease obligation	(12,829)	-
Total non-cash investing and financing activities	\$ (4,102,829)	\$ -

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

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE

Notes to the Financial Statements

As of and For the Years Ended December 31, 2013 and 2012

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Organization

The Dallas Holocaust Museum/Center for Education and Tolerance (DHM/CET) is a non-profit Texas corporation. DHM/CET is dedicated to preserving the memory of the Holocaust and to teaching the moral and ethical response to prejudice, hatred and indifference, for the benefit of all humanity. DHM/CET's education program consists primarily of the following activities:

DHM/CET Visit Orientations: Provides for a two hour orientation for educators to help enhance the education experience of the students who visit DHM/CET.

Teacher Workshops: Provides continuing education for Texas, Louisiana, and Oklahoma teachers. DHM/CET is certified by the Texas Education Agency to provide workshops designed to prepare educators to teach their students the history of the Holocaust as well as the cultural effects of the Holocaust.

Student Activities: Provides for various activities for students such as writing and art contests, guest lecturers, tours of DHM/CET and volunteerism.

Community Education: Provides a variety of educational opportunities and experiences to visitors of DHM/CET and participants in various related program offerings.

(b) Basis of Presentation

DHM/CET reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets - Represents resources that are generally not subject to donor imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. Contributions received with time and/or purpose restrictions which are fully expended in the same period are classified as unrestricted.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of DHM/CET and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by DHM/CET. Generally, the donors of these assets permit DHM/CET to use all or part of the income earned on any related investments for general or specific purposes.

Support and revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

(c) Cash and Cash Equivalents

For purposes of cash flows, DHM/CET considers cash, money market accounts, and all highly liquid debt instruments with original maturities of three months or less to be cash and cash equivalents.

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE

Notes to the Financial Statements

As of and For the Years Ended December 31, 2013 and 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investments

Investments are accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) topic Not-for-Profit Entities - Investments. This topic requires investments in equity securities with readily determinable fair values and all investments in debt securities to be measured at fair value. Fair values are based on quoted market prices, if available, or the best estimate of fair value determined by DHM/CET.

(e) Pledges Receivable

Unconditional support, including pledges receivable, is reported as an increase in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the nature of the donor-imposed restriction, if any. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Pledges expected to be collected within one year are recorded at estimated net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of their net realizable value, using interest rates ranging from 0% to 2%. No allowance for doubtful pledges has been recorded for balances as of December 31, 2013 and 2012 based on the collection experience of DHM/CET and analysis of specific promises made.

(f) Other Receivables

Other receivables are stated at unpaid balances which approximate fair value. It is DHM/CET's policy to charge off uncollectible receivables when management determines the receivables will not be collected.

(g) Inventory

Inventory is valued at the lower of cost or market. Cost is determined on the first-in, first-out method. Donated items are recorded at estimated fair value at the date of donation.

(h) DHM/CET Artifacts

In accordance with FASB ASC topic Revenue Recognition, DHM/CET does not recognize contributions of artifacts that are (1) held for public exhibition, (2) protected and preserved, and (3) are subject to an organizational policy that requires proceeds from the sale of artifacts to be used to acquire other artifacts. The artifacts are made up of items of historical significance and art objects that are held for educational, research, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. As of December 31, 2013 and 2012, DHM/CET has received approximately \$201,000 and \$118,000 respectively of donated artifacts that have not been recorded in the accompanying financial statements.

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE

Notes to the Financial Statements

As of and For the Years Ended December 31, 2013 and 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. DHM/CET capitalizes property and equipment with a cost of over \$500 and an estimated life greater than one year. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to twenty years.

(j) Impairment of Long-Lived Assets

DHM/CET periodically reviews the carrying value of its long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent fair value of a long-lived asset, determined based upon the estimated future cash inflows attributable to the asset, less estimated future cash outflows, are less than the carrying amount, an impairment loss is recognized. See Note 4 for impairment reflected in the 2013 financial statements. There was no such impairment for the year ended December 31, 2012.

(k) Income Taxes

DHM/CET has qualified as a tax exempt organization under section 501(c)(3) of the Internal Revenue Code. Therefore, no federal income taxes are paid or accrued so long as DHM/CET's gross receipts are used for its exempt purpose or purposes. DHM/CET recognizes interest accrued related to unrecognized tax benefits and penalties in operating expenses, if any. For 2013 and 2012, there were no interest or penalty expenses, and DHM/CET is not under examination for tax purposes by any taxing jurisdiction. Open tax years subject to examination are 2011 to present. DHM/CET generated unrelated business income tax liability of \$17,850 and \$17,848 related to parking lot revenue in 2013 and 2012, respectively. DHM/CET believes it has taken no significant uncertain tax positions.

(l) Estimates

The preparation of financial statements in conformity with accounting standards generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

(m) Concentrations of Credit and Market Risk

Concentrations of credit risk consist primarily of cash, investments and pledges receivable. Cash is held with financial institutions. At times, balances may exceed FDIC insured levels. Investments are exposed to various risks, such as interest rate, market and credit risk. Due to these risks, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and those changes could materially affect the financial statements. Approximately 90% of pledges receivable are due from eight individuals at December 31, 2013. All pledges receivable were due from four individuals at December 31, 2012.

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE
Notes to the Financial Statements
As of and For the Years Ended December 31, 2013 and 2012

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been reported according to their natural classification in the statements of functional expenses. Certain costs are jointly shared by programs, fundraising, and general and administrative functions and, accordingly, have been allocated among the functions benefited based on management's estimates.

(o) Fair Value of Financial Instruments

The carrying amount of DHM/CET's cash and cash equivalents, investments, receivables, and accounts payable, accrued expenses and debt approximate fair value.

(p) In-Kind Services

DHM/CET recognizes contributions of professional services received if those services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

(q) Recent Accounting Pronouncements

DHM/CET's management has evaluated the recently issued accounting pronouncements through the date these financial statements were available to be issued and has determined the application of these pronouncements will have no material impact on DHM/CET's financial position and changes in net assets.

(r) Reclassifications

Certain balances for 2012 have been reclassified to conform to 2013 presentation.

2. PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Gifts restricted for capital campaign	\$ 862,544	\$ -
Other restricted and unrestricted gifts	<u>101,875</u>	<u>59,726</u>
Net unconditional promises to give	<u>\$ 964,419</u>	<u>\$ 59,726</u>

The expected maturities of pledges receivable is as follows at December 31, 2013:

Capital campaign pledges due within one year	\$ 208,333
Other pledges due within one year	101,875
Capital campaign pledges due between one and five years	<u>666,667</u>
Total before discount	976,875
Less present value discount	<u>(12,456)</u>
Net pledges receivable	<u>\$ 964,419</u>

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE

Notes to the Financial Statements

As of and For the Years Ended December 31, 2013 and 2012

2. PLEDGES RECEIVABLE (Continued)

Pledges are discounted at rates up to 1.17% based on management's evaluation of risks associated with individual pledges and current risk-free interest rates at the time the pledge was made.

In addition to the unconditional pledges reflected in the financial statements, a conditional pledge of \$475,000 was made during 2013, which is not included in the accompanying financial statements. This pledge is from a single donor who intends for the pledge to be paid through future distributions from a philanthropic fund. This gift is conditioned upon availability of funds in the related philanthropic fund and approval of the distributions by the foundation which retains variance power over the fund.

3. OTHER RECEIVABLES

Other receivables consist of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Hope for Humanity event receivable	\$ 39,930	\$ 30,849
Parking revenues receivable	20,940	4,232
Other programs and activities receivable	<u>11,365</u>	<u>-</u>
Total other receivables	\$ <u>72,235</u>	\$ <u>35,081</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Furniture and equipment	\$ 464,370	\$ 427,439
Books	25,098	25,098
Improvements	<u>338,596</u>	<u>322,993</u>
Total depreciable property and equipment	828,064	775,530
Less accumulated depreciation	<u>(521,146)</u>	<u>(471,314)</u>
Net depreciable property and equipment	306,918	304,216
Land	6,367,818	2,271,097
Construction in progress	<u>78,111</u>	<u>535,106</u>
Total property and equipment, net	\$ <u>6,752,847</u>	\$ <u>3,110,419</u>

Construction in progress at December 31, 2013 and 2012 is for architectural, planning and design costs incurred for a facility to be located on land owned by DHM/CET. During 2013, the details regarding this future facility were altered, and management concluded that the planning and design work performed prior to 2013 would not be used in the ultimate construction of the new facility. Therefore, the costs incurred through December 31, 2012 were written off in 2013. Costs reflected as construction in process at December 31, 2013 reflect additional amounts incurred in 2013 based on the revised plans for the future facility. As of the date these financial statements were available to be issued, no long-term commitments or obligations exist related to the future construction of the facility.

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE
Notes to the Financial Statements
As of and For the Years Ended December 31, 2013 and 2012

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

Assets measured at fair value on a recurring basis include investments, which consist of assets held in a common pool by a foundation, and which are carried at fair market value as reported by the foundation based on DHM/CET's share of holdings in the common pool. These investments are classified in Level 2 of the fair value hierarchy. There have been no changes in the methodologies used at December 31, 2013 and 2012. DHM/CET relies on the foundation to maintain a diverse portfolio that mitigates market risks inherent with investments. As of December 31, the foundation summarized the makeup of the underlying assets associated with the investment pool as follows:

	<u>2013</u>	<u>2012</u>
Equity funds	60%	60%
Fixed income funds	16%	16%
Other	20%	20%
Money market or cash-brokerage/banks	4%	4%

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although DHM/CET believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

DALLAS HOLOCAUST MUSEUM/CENTER FOR EDUCATION AND TOLERANCE

Notes to the Financial Statements

As of and For the Years Ended December 31, 2013 and 2012

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following tables set forth by level, within the fair value hierarchy, DHM/CET's investments at fair value as of December 31, 2013 and 2012, and related changes in 2013 and 2012:

	<u>Investments (Level 2)</u>	
	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 934,301	\$ 863,325
Additional investments	23,405	32,621
Proceeds from sales and maturities	(45,514)	(43,165)
Realized gains	49,729	28,023
Unrealized gains	<u>64,305</u>	<u>53,497</u>
Balance, end of year	<u>\$ 1,026,226</u>	<u>\$ 934,301</u>

These balances are reflected on the statements of financial position as:

	<u>2013</u>	<u>2012</u>
Investments designated by the Board of Directors as endowment	\$ 938,864	\$ 856,787
Investments restricted by donors as endowment	<u>87,362</u>	<u>77,514</u>
	<u>\$ 1,026,226</u>	<u>\$ 934,301</u>

Investment income for the years ended December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Realized gains	\$ 49,729	\$ 28,023
Unrealized gains	<u>64,305</u>	<u>53,497</u>
Net realized and unrealized gains	114,034	81,520
Interest, dividends and fees	<u>23,820</u>	<u>22,083</u>
	<u>\$ 137,854</u>	<u>\$ 103,603</u>

6. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS

DHM/CET's endowment consists of two donor-restricted funds and one fund designated by the Board of Directors to serve as an endowment. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of DHM/CET has interpreted the Texas Prudent Management of Institutional Funds Act (TPMIFA) 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.

For donor-restricted funds in existence at December 31, 2013 and 2012, due to donor restrictions and the Board of Directors' interpretation of TPMIFA, DHM/CET classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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6. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by DHM/CET in a manner consistent with the standard of prudence prescribed by TPMIFA.

In accordance with TPMIFA, DHM/CET considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of DHM/CET, and (7) DHM/CET's investment policies.

For the board designated endowment fund, because no donor restriction exists, the amounts are classified as unrestricted net assets. The board designated endowment fund includes (a) amounts designated as endowment by the Board of Directors, (b) income earned on the endowment assets not appropriated, and (c) gains and losses on endowment-related assets.

Investment Return Objectives, Risk Parameters and Strategies - DHM/CET has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding for scholarships supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which meets the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy - For the board designated endowment fund, earnings on the related investments are reinvested and cash distributions of 5% of the average principal for the preceding three years are distributed to DHM/CET on a quarterly basis. For other endowment funds, because actual investment returns in any given year vary, DHM/CET reviews investment return throughout the year in conjunction with authorizing distributions to ensure the distributions do not liquidate the underlying endowment assets.

The donor-restricted endowments were established to generate income for scholarships and staff development.

The board designated endowment was established to generate income for general purposes.

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6. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS (Continued)

Changes in donor-restricted endowment net assets as of December 31, 2013, is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment net assets, beginning of year	\$ 2,362	\$ 75,152	\$ 77,514
Contributions	-	100	100
Investment earnings (net of fees of \$265)	1,438	8,310	9,748
Transfer of unused earnings required by donor	(2,097)	2,097	-
Appropriations	<u>-</u>	<u>-</u>	<u>-</u>
Donor-restricted endowment net assets, end of year	\$ <u>1,703</u>	\$ <u>85,659</u>	\$ <u>87,362</u>

Changes in donor-restricted endowment net assets as of December 31, 2012, is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment net assets, beginning of year	\$ 1,112	\$ 58,004	\$ 59,116
Net unrealized and realized gain	-	17,148	17,148
Investment earnings	1,250	-	1,250
Appropriations	<u>-</u>	<u>-</u>	<u>-</u>
Donor-restricted endowment net assets, end of year	\$ <u>2,362</u>	\$ <u>75,152</u>	\$ <u>77,514</u>

Changes in board designated endowment net assets as of December 31, 2013, is as follows:

	<u>Unrestricted</u>
Board designated endowment net assets, beginning of year	\$ 856,787
Net unrealized and realized gain	105,724
Investment earnings	21,602
Distributions and expenses	<u>(45,249)</u>
Board designated endowment net assets, end of year	\$ <u>938,864</u>

Changes in board designated endowment net assets as of December 31, 2012, is as follows:

	<u>Unrestricted</u>
Board designated endowment net assets, beginning of year	\$ 804,209
Net unrealized and realized gain	75,874
Investment earnings	19,649
Distributions and expenses	<u>(42,945)</u>
Board designated endowment net assets, end of year	\$ <u>856,787</u>

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7. CAPITAL LEASE OBLIGATION

The company entered into a lease agreement for the lease of equipment costing \$12,829 at December 31, 2013, which is classified as a capital lease. Amortization of the equipment was approximately \$267 for 2013 and is included in depreciation expense.

The following is a schedule by year of future minimum lease payments under the capital lease obligation together with the present value of the net minimum lease payments as of December 31, 2013.

2014	\$ 3,425
2015	3,425
2016	3,425
2017	<u>3,139</u>
Total minimum lease payments	13,414
Less amount representing interest	<u>836</u>
Present value of minimum lease payments	\$ <u>12,578</u>

8. NOTE PAYABLE

DHM/CET entered into a note payable to a financial institution effective September 2013 to finance the purchase of land for future expansion, currently utilized as a parking lot. The note requires quarterly payments of interest based on a rate of 2.875%. Principal and all unpaid accrued interest is due September 2018. The loan is secured by two land parcels.

9. LINE OF CREDIT

DHM/CET has a revolving line of credit agreement with a bank. The line of credit has a maximum commitment of \$250,000 and bears interest at the bank's prime rate, 3.25% at December 31, 2013. The line of credit matures in September 2015. As of December 31, 2013 and 2012, no amounts have been advanced against the line of credit. The line of credit is secured by DHM/CET's land.

10. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consist of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Capital campaign	\$ 1,156,623	\$ 60,263
Teacher training	5,083	3,900
Scholarships	48,073	15,630
Other	<u>57,737</u>	<u>9,811</u>
	\$ <u>1,267,516</u>	\$ <u>89,604</u>

Permanently restricted net assets consist of amounts donor restricted as endowments intended to generate scholarship and staff development income.

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11. SPECIAL EVENTS

Special events consisted of the following in 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Hope for Humanity Dinner revenue	\$ 682,791	\$ 796,157
Other special events	<u>42,300</u>	<u>1,178</u>
	725,091	797,335
Less direct donor benefit costs	<u>(63,420)</u>	<u>(67,200)</u>
	<u>\$ 661,671</u>	<u>\$ 730,135</u>

12. DHM/CET STORE

DHM/CET operates a store that sells books and other items directly related to its education program. Income and expenses for the store sales are reported as follows:

	<u>2013</u>	<u>2012</u>
Sales	\$ 67,533	\$ 64,174
Cost of sales	<u>(38,609)</u>	<u>(47,615)</u>
Gross profit from sales	28,924	16,559
Other educational program activity revenue	<u>19,723</u>	<u>19,602</u>
Gross profit from sales	<u>\$ 48,647</u>	<u>\$ 36,161</u>

Sales revenue and cost of sales are reported net of discounts, estimated returns, and sales taxes.

13. PARKING LOT REVENUE

DHM/CET owns two land parcels which were purchased for future expansion and are currently utilized as parking lots. Parking lot revenue is generated from both lots, including the one purchased during 2013. Related revenue is reported on the statements of activities net of costs required to generate the revenue, as follows:

	<u>2013</u>	<u>2012</u>
Revenue (net of sales tax)	\$ 145,274	\$ 82,803
Interest expense related to parking lot acquisition	(39,572)	-
Other operating costs	(34,776)	(28,593)
Estimated unrelated business income tax	<u>(17,850)</u>	<u>(17,848)</u>
Gross profit from sales	<u>\$ 53,076</u>	<u>\$ 36,362</u>

14. OPERATING LEASES

DHM/CET leases office space under a rental agreement in effect through November 2015. The lease has a one year renewal option with not more than 12 months, but not less than six months, written notice to the landlord. Related rent expense amounted to approximately \$109,000 per year for the years ended December 31, 2013 and 2012. Future minimum rental payments required under this operating lease with terms in excess of one year as of December 31, 2013 are approximately \$109,000 for 2014 and \$99,000 for 2015.

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15. ADVERTISING

DHM/CET expenses all advertising costs as incurred. Total expense was approximately \$307,000 and \$107,000, respectively for the years ended December 31, 2013 and 2012.

16. RELATED PARTY ACTIVITY

DHM/CET receives insurance advisory services from a company with whom a member of DHM/CET's board of directors is employed. Commissions of approximately \$4,500 and \$6,500 were paid to this company for the years ended December 31, 2013 and 2012, respectively. The board of directors approved this related party activity.

17. SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2013 have been evaluated for possible adjustment to the financial statements or disclosure is May 14, 2014, which is the date on which the financial statements were available to be issued.

Between January 1, 2014 and May 14, 2014, DHM/CET entered into or extended agreements related to the capital campaign and related activities. Among these agreements are:

- An agreement totaling \$50,000, payable between April and September 2014, for preliminary building design
- An agreement for \$20,000, payable on dates to be determined in 2014, to create an automated presentation intended for capital campaign fundraising efforts, public relations and general informational distribution
- Agreements for a total of \$75,000, payable between February and June 2014, for campaign counseling services
- An agreement for \$15,000 per month for services to be provided for four to six months in 2014 related to museum exhibit storyline and design work, including coordination with architects for the building design.