

Financial Statements and Independent Auditor's Report

Dallas Holocaust Museum / Center for Education and Tolerance

For the year ended December 31, 2018



LANE GORMAN TRUBITT, LLC
Accountants & Advisors

2626 Howell Street, Ste 700
Dallas, Texas 75204

P: 214-871-7500
E: askus@lgt-cpa.com

www.lgt-cpa.com

DALLAS HOLOCAUST MUSEUM /
CENTER FOR EDUCATION AND TOLERANCE

DECEMBER 31, 2018

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LANE GORMAN TRUBITT, LLC
Accountants & Advisors

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Dallas Holocaust Museum / Center for Education and Tolerance (the "Museum"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 qualified audit opinion.

Basis for Qualified Opinion

As described in the notes to the financial statements, under accounting principles generally accepted in the United States of America (U.S. GAAP), the Museum is deemed to have a controlling financial interest and economic interest in the Dallas Holocaust and Human Rights Museum Endowment Foundation, Inc. (the "Endowment Foundation"). Under U.S. GAAP, there is a presumption that consolidated financial statements provide for a more meaningful presentation of results of operations and financial position. The accompanying financial statements, however, are not consolidated with the Endowment Foundation due to management's desire to report the operations of the Museum on a stand-alone basis. Although not included in the accompanying financial statements, separate audited consolidated financial statements of the Museum and the Endowment Foundation have been prepared.

Qualified Opinion

In our opinion, except for the effects of not consolidating the Endowment Foundation as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Museum as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

LANE GORMAN TRUBITT, LLC

Dallas, Texas
April 30, 2019

Dallas Holocaust Museum / Center for Education and Tolerance
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

Cash and cash equivalents	\$ 14,495,104
Other receivables	13,158
Inventory, net	9,608
Prepaid expenses	444,807
Pledges receivable, net	25,248,333
Property and equipment, net	39,182,413
Investments unrelated to endowment	95,967
Investments restricted by donors as endowments	<u>71,166</u>
Total assets	<u>\$ 79,560,556</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 4,333,018
Assets held for the Endowment Foundation	871,971
Lines of credit	<u>2,665,100</u>
Total liabilities	<u>7,870,089</u>

NET ASSETS

Without donor restrictions	45,462,549
With donor restrictions	<u>26,227,918</u>
Total net assets	<u>71,690,467</u>
 Total liabilities and net assets	 <u>\$ 79,560,556</u>

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

Dallas Holocaust Museum / Center for Education and Tolerance
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Admission fees	\$ 430,233	\$ -	\$ 430,233
Memberships	466,111	-	466,111
Program service fees and museum store sales, net	47,506	-	47,506
Parking lot revenue, net	114,648	-	114,648
Contributions	5,897,793	8,530,040	14,427,833
In-kind contributions	179,636	-	179,636
Grants	261,047	286,046	547,093
Special event revenues, net of cost of direct benefits to donors	1,097,164	-	1,097,164
Endowment grants to operations	75,045	-	75,045
Endowment returns provided for operations	(30,755)	(13,536)	(44,291)
Investment income, net	65,031	15,670	80,701
Net assets released from restrictions	9,933,219	(9,933,219)	-
Total revenues and other support	18,536,678	(1,114,999)	17,421,679
EXPENSES			
Education	2,382,508	-	2,382,508
Fundraising	958,382	-	958,382
Administrative	946,943	-	946,943
Total expenses	4,287,833	-	4,287,833
CHANGE IN NET ASSETS	14,248,845	(1,114,999)	13,133,846
Net assets, beginning of year	33,664,798	29,666,930	63,331,728
Reclassification of donor restrictions	(850,000)	850,000	-
Transfer of net assets to the Endowment Foundation	(1,601,094)	(3,174,013)	(4,775,107)
Net assets, end of year	\$ 45,462,549	\$ 26,227,918	\$ 71,690,467

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

Dallas Holocaust Museum / Center for Education and Tolerance
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018

	<u>Education</u>	<u>Fundraising</u>	<u>Administrative</u>	<u>Total</u>
Salaries and benefits	\$ 975,488	\$ 598,006	\$ 683,178	\$ 2,256,672
Advertising and publicity	201,945	1,198	-	203,143
Facility and occupancy	277,905	30,026	28,827	336,758
Temporary exhibits, workshops and education	723,485	-	-	723,485
Professional fees	-	133,182	53,472	186,654
Travel meals and entertainment and special events	79,513	83,871	29,526	192,910
Office expenses	6,613	88,031	38,266	132,910
Information technology	5,298	14,180	40,497	59,975
Cost of goods sold	39,950	-	-	39,950
Cost of direct benefits to donors	-	484,195	-	484,195
Depreciation	69,412	5,232	4,739	79,383
Other	42,849	4,656	68,438	115,943
Total functional expenses	<u>2,422,458</u>	<u>1,442,577</u>	<u>946,943</u>	<u>4,811,978</u>
Less expenses included with revenues on the statement of activities and changes in net assets				
Cost of goods sold	(39,950)	-	-	(39,950)
Cost of direct benefits to donors	<u>-</u>	<u>(484,195)</u>	<u>-</u>	<u>(484,195)</u>
Total expenses	<u>\$ 2,382,508</u>	<u>\$ 958,382</u>	<u>\$ 946,943</u>	<u>\$ 4,287,833</u>

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

Dallas Holocaust Museum / Center for Education and Tolerance
 STATEMENTS OF CASH FLOWS
 Year ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 13,133,846
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Contributions to endowments with donor restrictions	(949,800)
Depreciation	79,383
Bad debt expense	165
Net realized and unrealized gains on investments	(2,261)
Changes in operating assets and liabilities, net:	
Other receivables	28,761
Inventory	5,922
Prepaid expenses	83,026
Pledges receivable	2,326,869
Accounts payable and accrued expenses	(276,318)
Assets held for the Endowment Foundation	467,171
Net cash provided by operating activities	14,896,764

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(1,072,441)
Proceeds from sales and maturities of investments	44,291
Purchases of property and equipment including construction in progress	(20,266,094)
Net cash used in investing activities	(21,294,244)

CASH FLOWS FROM FINANCING ACTIVITIES

Contributions to endowments with donor restrictions	949,800
Borrowings on line of credit	2,665,100
Net cash provided by financing activities	3,614,900

Net decrease in cash and cash equivalents (2,782,580)

Cash and cash equivalents at beginning of year 17,277,684

Cash and cash equivalents at end of year \$ 14,495,104

Supplemental cash flow information:

Cash paid during the year for:

Interest	\$ 10,161
Income taxes	\$ 1,922

Supplemental disclosures of noncash investing and financing activities:

Construction in progress included in accounts payable and accrued expenses at year end	\$ 4,006,514
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The accompanying notes are an integral part of these financial statements.

Dallas Holocaust Museum / Center for Education and Tolerance
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

The Dallas Holocaust Museum / Center for Education and Tolerance (the “Museum”) is a non-profit Texas Corporation. The Museum’s mission is to teach the history of the Holocaust and advance human rights to combat prejudice, hatred and indifference. The Museum’s education program consists primarily of the following activities:

Student Activities: Provides for educational activities for students such as guest lecturers, tours of the Museum and volunteerism.

Teacher Workshops: Provides continuing education for Texas, Louisiana, and Oklahoma teachers. The Museum 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.

Community Education: Provides a variety of educational opportunities through multi-media exhibitions, guest speakers, films, classes, civil discourse and other programs.

During 2017 a new entity, Dallas Holocaust and Human Rights Museum Endowment Foundation, Inc., (the “Endowment Foundation”) was organized and is operated exclusively to support and benefit the Museum. During 2018, the Museum transferred \$4,775,107 of assets to the Endowment Foundation.

Under accounting principles generally accepted in the United States of America (U.S. GAAP), based on certain facts described below, the Museum is deemed to have a controlling financial interest and economic interest in the Endowment Foundation. Under U.S. GAAP, there is a presumption that consolidated financial statements provide for a more meaningful presentation of results of operations and financial position. The accompanying financial statements, however, are not consolidated with the Endowment Foundation due to management’s desire to report the operations of the Museum on a stand-alone basis. Although not included in the accompanying financial statements, separate audited consolidated financial statements of the Museum and the Endowment Foundation have been prepared. As of December 31, 2018, the Endowment Foundation held net assets of \$5,137,053, which, subject to limitations in its Certificate of Formation, are held for the support of the Museum.

The independent auditor audited the consolidated financial statements and the related notes to the consolidated financial statements (the “Consolidated Statements”) of the Museum and the Endowment Foundation as of and for the year ended December 31, 2018, and expressed their opinion that the Consolidated Statements are in conformity with accounting principles generally accepted in the United States of America. Utilizing amounts included in the Consolidated Statements, management of the Museum has prepared the accompanying unconsolidated financial statements of the Museum as of and for the year ended December 31, 2018. The independent auditors are unable to express an opinion that the unconsolidated financial statements are in conformity with accounting principles generally accepted in the United States of America solely because they do not consolidate the Endowment Foundation.

Under accounting principles generally accepted in the United States of America, consolidation is required because the purpose of the Endowment Foundation is to support the Museum and because of the five directors of the Endowment Foundation, three must be officers or directors of the Museum. The Certificate of Formation of the Endowment Foundation provides that no assets of the Endowment Foundation may be used to pay or enable the Museum to pay any unagreed judgment against the Museum, and the Endowment Foundation is not required by its governing documents or any other agreement to make grants, distributions or other payments to the Museum. Although not included in the accompanying financial statements, the independent auditors audited the separate financial statements and the related notes to the financial statements of the Endowment Foundation as of and for the year ended December 31, 2018, and expressed their opinion that those financial statements are in conformity with accounting principles generally accepted in the United States of America.

Dallas Holocaust Museum / Center for Education and Tolerance
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied by the Museum in the preparation of the accompanying financial statements is as follows:

Basis of Accounting

The accompanying 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”). Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

Basis of Presentation and Revenue Recognition

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors. Grants or contributions that are restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the grant or contribution is recognized.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor-imposed stipulations are temporary in nature, such as those that may or will be met either by actions of the Museum and/or the passage of time. Other donor-imposed stipulations are permanent in nature, where the donor stipulates that resources be maintained in perpetuity by the Museum. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time-period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as revenues in the period unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash and historical artifacts are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Accretion of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management’s judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity.

The Museum reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

In addition to contribution and gift revenue, the Museum recognizes revenue on sales upon delivery of product to customers. Revenues from admission and parking are recognized at the time of service. Membership fees are recognized as revenue when earned. Program service revenues are recognized as services are provided. Revenues are recorded net of any sales taxes charged to customers.

Dallas Holocaust Museum / Center for Education and Tolerance
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly liquid investments purchased with an initial maturity of three months or less. The Museum maintains its cash and cash equivalents with financial institutions located in Dallas, Texas, which, at times, may exceed federally insured limits. The Museum has not incurred any losses in these accounts and does not believe that it is exposed to any significant credit risk on cash and cash equivalents.

Other Receivables

Other receivables represent contractual amounts due in the ordinary course of business and are stated at the amount management expects to collect. The Museum considers other receivables to be fully- collectible based on its assessment of the current status of individual accounts and current economic conditions; accordingly there was no reserve recorded for other receivables at December 31, 2018. It is the Museum's policy to charge off uncollectible receivables when management determines the receivables will not be collected. If receivables are determined to be delinquent or become uncollectible, they will be charged to operations at that time.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out method. When evidence exists that the net realizable value of inventory is lower than its cost, the difference is recognized as a loss in the statement of activities and changes in net assets in the period in which it occurs. Inventory is stated net of a reserve of \$3,223 as of December 31, 2018.

Pledges Receivable

Pledges receivable represent unconditional promises to give support over a period of time. Unconditional contributions and promises to give are reported as an increase in net assets with or without donor restrictions, depending on the nature of the donor-imposed restriction, if any.

Based on the Museum's experience of finalizing agreements with donors, oral promises that are yet to be finalized through written agreements are considered intentions to give and are not recorded until the agreement is signed since the amount and terms are not definitive or estimable and may change through this process.

Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Pledges receivable expected to be collected within one year are recorded at estimated net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their net realizable value, at an appropriate discount rate (ranging from 1.47% to 2.88%) commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. The Museum determines the allowance for uncollectible pledges receivable based on historical experience and changes in donor circumstances. Amounts will be written off if, and when, they are deemed uncollectible.

Museum Artifacts

The Museum has a collection of historical artifacts that it protects and preserves. The collection provides a foundation for exhibitions, research, and educational public programming dedicated to teaching the history of the holocaust and advancing human rights to combat prejudice, hatred, and intolerance. The Museum has an archivist to ensure the collection is protected and preserved and a detailed Collections Management Policy, which governs the stewardship of these collections.

Dallas Holocaust Museum / Center for Education and Tolerance
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Museum Artifacts (Continued)

The Museum accounts for historical artifacts as collection items if they meet the definition of a collection according to the criteria for recognition under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-360-25-3, *Not-for-Profit Entities—Property, Plant, and Equipment*. The criteria state that to be a collection the assets are (a) held for public exhibition, (b) protected and preserved, and (c) are subject to an organizational policy that requires the proceeds from the sale of historical artifacts to be used to acquire other items for collections absent any donor imposed restrictions. Each of the items is catalogued, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously.

The Museum has a policy of not capitalizing the collection of historic artifacts in its financial statements. Accordingly, no collection items are recognized as assets, whether they are purchased or received as a donation. Purchases of collection items reduce net assets without donor restrictions in the period when purchased. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset class. There were 45 additions of individual objects to the collection during the year ended December 31, 2018 through gifts, transfers, or purchases. The Museum did not purchase or expense individual objects during the year ended December 31, 2018. There were no deaccessions during the year ended December 31, 2018. As of December 31, 2018, the Museum has approximately \$256,000 of donated artifacts that have not been recorded in the accompanying financial statements.

Property and Equipment

Property and equipment are carried at cost as of the date of acquisition or fair value as of the date of donation, less accumulated depreciation. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets over their estimated useful lives on the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is recognized in the statements of activities and changes in net assets. Costs of betterments and improvements are capitalized, while replacements, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. The Museum expenses repairs and maintenance and all property and equipment under \$2,500.

Property and equipment operated under material leases, which transfer substantially all benefits and risks associated with the assets to the Museum are capitalized. An asset and liability equal to the present or fair value, if appropriate, of minimum payments over the term of the leases are recorded. Amortization of the asset is computed using the straight-line method. Expenses associated with all other leases (operating leases) are charged to expense as incurred.

Investments

Investments in equity securities with readily determinable fair values, and all investments in debt securities are measured at fair value. Fair values are based on quoted market prices, if available, or the best estimate of fair value determined by the Museum. Investments in the commingled pool are valued at the amounts reported by the investment managers at year-end, and Museum management believes that the carrying value is a reasonable estimate of the fair value as of December 31, 2018. Investment transactions are recorded on the trade date. Realized and unrealized gains and losses on investments are determined by comparison of the actual cost to the proceeds at the time of the disposition or fair values as of the end of the financial statement period by using the specific identification method.

Investment income or loss (including realized and unrealized gains and losses on investments and interest and dividends less management fees) is included in the determination of changes in net assets and is reported as revenues and other support in the accompanying statement of activities and changes in net assets. Interest income is recognized on the accrual basis and dividends are recognized on the ex-dividend date.

Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Dallas Holocaust Museum / Center for Education and Tolerance
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this ASU to clarify and improve the scope, and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Museum should apply the changes due to ASU 2018-08 for transactions in which the Museum serves as the resource provider to annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early application of the amendments in this ASU is permitted. The Museum is currently assessing the impact this standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP - which requires only capital leases to be recognized on the statement of financial position - the new ASU will require both types of leases to be recognized on the statement of financial position. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments in this ASU is permitted. The Museum is currently assessing the impact that this standard will have on its financial statements.

Newly Adopted Accounting Pronouncement

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The objective of this ASU is to improve the net asset classification requirements and the information presented in financial statements and notes about a not-for-profit’s liquidity, financial performance, and cash flows. The key provisions include net asset classes, investment return, expenses, liquidity and availability of resources, and the statement of cash flows.

The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenditures by function and nature in either the statement of revenues, expenditures and changes in net assets, or in the notes to the financial statements and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Museum implemented ASU 2016-14 effective January 1, 2018 and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented. There was no impact to net asset balances or changes in net assets. Net assets previously reported as unrestricted are now reported as net assets without donor restrictions. Net assets previously reported as temporarily or permanently restricted are now reported as net assets with donor restrictions.

Income Taxes

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”), except to the extent it has unrelated business income. In addition, the Museum has been classified as a public charity under the Code. Should the Museum engage in activities unrelated to the purpose for which it was created, taxable income could result.

Dallas Holocaust Museum / Center for Education and Tolerance
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Museum recorded tax expense of \$1,922 on unrelated business income for the year ended December 31, 2018 and a prepaid expense for the overpayment of unrelated business income tax of \$2,368 related to parking provided to employees. The overpayment will be applied to unrelated business income tax due for the next fiscal year. The Museum believes it has taken no significant uncertain tax positions.

GAAP requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Museum's tax returns to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense in the current year. A reconciliation is not provided herein, as the beginning and ending amounts of unrecognized benefits are zero, with no interim additions, reductions, or settlements. The Museum is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status. However, the conclusions regarding the uncertainty in income taxes will be subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations and interpretations thereof.

The Museum recognizes interest and penalties, if any, related to uncertain tax positions as administrative expenses. The Museum's informational returns are generally subject to examination for three years after the later of the due date or date of filing.

Advertising Costs

The Museum expenses all advertising costs as incurred. Total advertising and publicity expense was \$203,143 for the year ended December 31, 2018.

Contributed Goods and Services

Donated goods are recorded at their estimated fair value market value when received. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of unpaid volunteers and board members have made significant contributions of their time to the Museum in developing programs, attending fundraising events and assisting in program administration. The value of this contributed time is not reflected in the financial statements since it does not meet the criteria discussed above.

Contributed services and materials for the Museum's programs and administration included in in-kind contributions in the accompanying statements of activities and changes in net assets are as follows for the years ended December 31:

	<u>2018</u>
Donated goods and services for capital campaign	\$ 124,597
Donated marketing, public relations and advertising	41,636
Other donated goods and services	<u>13,403</u>
	<u>\$ 179,636</u>

Compensated Absences

Employees of the Museum receive paid vacation, depending on length of service and other factors. Compensated time off is accrued based on actual days not utilized subject to a maximum carryover as outlined in the employee manual. The estimate of this liability is included in accounts payable and accrued expenses in the accompanying statements of financial position.

Dallas Holocaust Museum / Center for Education and Tolerance
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities and changes in net assets. Certain costs are jointly shared by education, fundraising, and administrative functions and, accordingly, certain expenses have been allocated among the programs and supporting services benefited based on management's estimates.

Expenses are recorded as attributable to either education or supporting services whenever possible. However, certain categories of expenditures are attributable to more than one function and therefore, require allocation on a reasonable basis that is consistently applied. These expenditures are allocated on the basis of estimates of time and effort estimates made by the Museum's management.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31:

	2018
Gifts related to capital campaign	\$ 25,019,706
Other restricted and unrestricted gifts	228,627
Net unconditional promises to give	\$ 25,248,333

The expected maturities of pledges receivables are as follows at December 31:

	2018
Capital campaign pledges due within one year	\$ 10,573,006
Other pledges due within one year	156,627
Other pledges due within 1-5 years	72,000
Capital campaign pledges due between one and five years	14,150,855
Capital campaign pledges due after five years	1,850,000
Total before discount and allowance for doubtful pledges	26,802,488
Less: present value discount	(1,040,489)
Less: allowance for doubtful pledges	(513,666)
Pledges receivable, net	\$ 25,248,333

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

Dallas Holocaust Museum / Center for Education and Tolerance
NOTES TO FINANCIAL STATEMENTS

4. LIQUIDITY AND AVAILABILITY

As of December 31, 2018, the following financial assets could readily be made available within one year to meet general expenditures:

	2018
Cash and cash equivalents, net of \$11,088,740 subject to donor restriction and board designation	\$ 3,406,364
Accounts receivable	13,158
Pledges receivable for general operations due in one year	138,822
Total	\$ 3,558,344

The Museum regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Museum has a goal to maintain financial assets to meet 180 days of normal operating expenses, which equates to approximately \$2.5 million. The Museum has various sources of liquidity at its disposal, including cash and cash equivalents, and lines of credit. See Note 10 for information on the Museum’s lines of credit, including a \$250,000 line of credit available in the event of an unexpected liquidity event. As part of its liquidity management, the Museum invests cash in excess of immediate requirements in shares of an institutional money market fund.

In addition to financial assets available to meet general expenditures over the next 12 months, the Museum anticipates collecting sufficient revenue and support to cover general expenditures not covered by donor-restricted resources.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	Estimated Lives	2018
Furniture and equipment	3 - 20 years	\$ 453,475
Books	17 years	25,098
Improvements	2 - 15 years	352,052
Total depreciable property and equipment		830,625
Less: accumulated depreciation		(679,814)
Net depreciable property and equipment		150,811
Land		6,370,038
Construction in progress		32,661,564
Property and equipment, net		\$ 39,182,413

Depreciation expense for the year ended December 31, 2018 was \$79,383.

Construction in progress at December 31, 2018 is for construction, architectural, planning and design costs incurred for a facility and parking garage currently under construction on land owned by the Museum. In October 2017, the Museum entered into an agreement with a construction manager for the construction of a new museum with a guaranteed maximum price of \$25,000,000. In March 2019, the amount was increased to approximately \$32,725,000.

6. TRANSFER OF NET ASSETS TO THE ENDOWMENT FOUNDATION

During 2018, the Museum transferred approximately \$4,775,000, consisting of endowment investments (including board designated quasi-endowments) and related pledges receivable to the Dallas Holocaust and Human Rights Museum Endowment Foundation, Inc. (the “Endowment Foundation”). Investments and assets held and invested by the Endowment Foundation are for the benefit of the Museum subject to certain limitations as stated in the Endowment Foundation’s articles of incorporation and bylaws. The transfer of assets in August 2018, to the Endowment Foundation is reported as a transfer of net assets to Endowment Foundation on the statement of activities and changes in net assets. Net asset classification for this transaction reflects any donor imposed restrictions on the underlying net assets.

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NOTES TO FINANCIAL STATEMENTS

7. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The accounting standards establish 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 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum 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 Museum bases its fair value on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Museum's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the year ended December 31, 2018 there were no transfers in or out of levels 1, 2 or 3.

Assets measured at fair value on a recurring basis include investments, which consist of assets held in a commingled pool by an unrelated foundation, and which are carried at fair value as reported by the unrelated foundation based on the Museum's share of holdings in the commingled pool. Mutual funds and money market funds are valued at the net asset value of shares held by the Museum at year-end. There have been no changes in the methodologies used at December 31, 2018. The Museum relies on the unrelated foundation to maintain a diverse portfolio that mitigates market risks inherent with investments.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Museum 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.

The following table sets forth the changes in the Museum's investments at fair value as of and for the year ended December 31, 2018:

	2018
Balance, beginning of year	\$ 2,028,508
Additional investments	1,072,441
Proceeds from sales and maturities of investments	(44,291)
Realized gains	6,401
Unrealized losses	(4,140)
Transfer of investments to Endowment Foundation (See Note 6)	(2,891,786)
Balance, end of year	\$ 167,133

Dallas Holocaust Museum / Center for Education and Tolerance
NOTES TO FINANCIAL STATEMENTS

7. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Investment balances are reflected on the statement of financial position as:

	2018
Investments unrelated to endowments	\$ 95,967
Investments restricted by donors as endowments	71,166
	\$ 167,133

Investment income consists of the following:

	2018
Realized gains	\$ 6,401
Unrealized losses	(4,140)
Net realized and unrealized gains	2,261
Interest and dividends, net of fees	78,440
	\$ 80,701

The following table summarizes the carrying amounts and estimated fair values by level of the Museum's financial instruments measured at fair value in the statement of financial position as of December 31, 2018:

	Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Long-term investment bond	\$ 5,000	\$ -	\$ 5,000	\$ -
Restricted investments for deferred compensation:				
Equity mutual funds	52,042	52,042	-	-
Fixed income mutual funds	37,115	37,115	-	-
Money market fund	1,810	1,810	-	-
Total restricted investments for deferred compensation	90,967	90,967	-	-
Total assets in the fair value hierarchy	95,967	\$ 90,967	\$ 5,000	\$ -
Commingled pool:				
Balanced Plus fund	71,166			
Total commingled pool (a)	71,166			
	\$ 167,133			

- (a) These investments are valued using net asset value as a practical expedient, and therefore have not been classified in the fair value hierarchy.

Actual or underlying investments of the commingled pool may include cash, mutual funds, stocks, bonds, fixed income securities, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and the statement of activities and changes in net assets.

In general, there are no restrictions as to redemptions of the commingled pool, nor does the Museum have any contractual obligation to further invest in the commingled pool.

Dallas Holocaust Museum / Center for Education and Tolerance
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8. ENDOWMENTS

The Museum’s endowment consists of one donor-restricted fund established to generate income for scholarships. As required by GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. During 2018, eleven endowment funds were transferred to the Endowment Foundation as described in Note 6.

The Board of Directors of the Museum 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.

For donor-restricted funds in existence at December 31, 2018, due to donor restrictions and the Board of Directors’ interpretation of TUPMIFA, the Museum classifies as net assets with donor restriction (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.

The remaining portion of the donor-restricted endowment fund that is not subject to permanent donor imposed restrictions is classified as net assets with donor restriction until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by TUPMIFA.

In accordance with TUPMIFA, the Museum 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 investment, (6) other resources of the Museum, and (7) the Museum’s investment policies.

Investment Return Objectives, Risk Parameters and Strategies – The Museum follows the total return method in an effort to ensure that over a long period of time, the Museum will be able to make the maximum current distributions that are practical, consistent with the equally important goals of (1) preserving purchasing power of the Museum’s assets and (2) providing for some growth in assets, in real terms, even if there are no future endowment contributions to the Museum. A secondary but significant purpose of the policy is to make it easier to plan by providing a stable and predictable pattern of distributions.

Endowment assets are invested in a well-diversified asset mix that is intended to result in 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 – Subject to the restrictions in any agreements with donors, each fiscal year endowment distributions to operations are up to but not more than 7% of the average value of the investment assets. The amount of each annual distribution is expected to vary based on several factors, including but not limited to needs and the return achieved on the investment assets. The annual distributions may be made in one or more installments throughout the fiscal year. During 2018, a distribution of 4.25% of the average value of the investment assets as of December 31, 2017, was distributed to operations.

Endowment net assets consist of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
<u>December 31, 2018:</u>			
Endowment net assets	\$ -	\$ 71,166	\$ 71,166

Dallas Holocaust Museum / Center for Education and Tolerance
NOTES TO FINANCIAL STATEMENTS

8. ENDOWMENTS (Continued)

Changes in endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2017	\$ 1,612,935	\$ 1,054,651	\$ 2,667,586
Contributions	-	949,800	949,800
Recharacterization of donor pledges	-	1,300,000	1,300,000
Investment earnings - net	18,914	15,670	34,584
Appropriations	(30,755)	(13,536)	(44,291)
Other adjustments	-	(61,406)	(61,406)
Transfer of endowment net assets to Endowment Foundation	(1,601,094)	(3,174,013)	(4,775,107)
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 71,166</u>	<u>\$ 71,166</u>

Other adjustments represent adjustments to recognize endowment pledges receivable at their realizable value net of discounts and allowances.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Museum leases office space under a rental agreement in effect through November 2021. The lease has a cancellation option on November 30, 2019 or November 30, 2020 with at least six months written notice to the landlord. The Museum has exercised the option to cancel as of November 30, 2019. Future minimum rental payments required under operating leases are \$165,171 for 2019. Rent expense, which includes utilities, was \$244,730 for the year ended December 31, 2018.

The Museum has committed to building a new museum and parking garage with estimated total project costs of approximately \$54,000,000 and an estimated completion date of August 2019 for the museum and June 2019 for the parking garage. The Museum has entered into a capital campaign and various debt financing agreements to secure funding for the new facilities. See Note 3 for further information regarding the expected timing of payments to be received on capital campaign pledges receivable. See Note 10 for further information regarding construction-related debt financing.

10. LINES OF CREDIT

The Museum has a revolving line of credit agreement with a bank. The line of credit has a maximum commitment of \$250,000 and accrues interest at the bank's prime rate (5.50% at December 31, 2018). The line of credit matured September 3, 2018, and was renewed through September 2019. The principal balance on the line of credit is payable at maturity with interest paid monthly. No amounts were advanced against the line of credit. The line of credit is secured by the Museum's land.

The Museum has a revolving line of credit agreement with a bank. The line of credit has a maximum commitment of \$16,000,000 and bears interest at 3%. The line of credit matures June 30, 2021. The principal balance on the line of credit is payable at maturity with accrued interest paid monthly. The line of credit provides maximum advances up to \$16 million through June 30, 2020, reducing to a maximum availability of \$10 million at July 1, 2020 and then to \$8 million at January 1, 2021 through maturity. The line of credit is collateralized by the assignment of proceeds from the "Building a Foundation of Hope" capital campaign, related deposit accounts and a pledge agreement on real estate owned by the Museum. The agreement contains various provisions and restrictions and furnishing certain financial information to the bank on a periodic basis. As of December 31, 2018, no amounts have been advanced against the line of credit.

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NOTES TO FINANCIAL STATEMENTS

10. LINES OF CREDIT (Continued)

The Museum has a revolving line of credit agreement with a bank. The line of credit has a maximum commitment of \$8,000,000 and bears interest at 3.25% through October 4, 2027. From October 5, 2017 through the maturity date, the line of credit bears interest at a rate equal to the greater of the prevailing five-year Treasury Constant Maturity Rate plus 180 basis points or 3.25%. Each interest rate adjustment is subject to a floor rate of 3.25%, as well as a maximum adjustment of 200 basis points per adjustment. The line of credit matures October 5, 2038. The principal balance on the line of credit is payable at maturity with interest paid monthly. The line of credit provides maximum advances up to \$8 million through the first 48 months of the loan term, reducing monthly thereafter to a maximum amount available based on a 17-year amortization of the original loan amount. The line of credit is collateralized by a first lien deed of trust on real estate owned by the Museum and is also secured by a cross pledge interest in the “Building a Foundation of Hope” capital campaign and related deposit accounts. The agreement contains various provisions and restrictions and furnishing certain financial information to the bank on a periodic basis. As of December 31, 2018, \$2,665,100 has been advanced against the line of credit.

11. NET ASSETS WITH AND WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are as follows:

	2018
Undesignated:	
Operating	\$ 1,187,013
Property, plant and equipment	36,517,313
Board designated:	
Capital campaign	7,658,223
Contingency fund	100,000
	\$ 45,462,549

Net assets with donor restrictions are restricted as follows:

	2018
Capital campaign – time restrictions only	\$ 22,629,704
Capital campaign – specific purpose restrictions	2,879,546
Museum experience	484,635
Program support	162,867
Scholarships	71,166
	\$ 26,227,918

12. NET ASSETS RELEASED FROM RESTRICTIONS

The sources of net assets released from donor restrictions by incurring expenses satisfying the restricted purposes, or by occurrence of events specified by the donors are as follows for the year ended December 31:

	2018
Expiration of time restrictions	\$ 7,988,841
Satisfaction of building construction restrictions	1,630,000
Satisfaction of program restrictions	314,378
	\$ 9,933,219

13. SPECIAL EVENTS

Special events consist of the following:

	2018
Hope for Humanity Dinner revenue	\$ 1,451,699
Other special events	129,660
	1,581,359
Less: cost of direct benefits to donors	(484,195)
	\$ 1,097,164

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14. PROGRAM SERVICE FEES AND MUSEUM STORE SALES

The Museum operates a store that sells books and other items directly related to its education program. Revenues and expenses for the Museum store are reported as follows:

	2018
Sales	\$ 73,650
Cost of sales	(38,953)
Unrelated business income tax	(997)
Gross profit	33,700
Other educational program service fees	13,806
	<u>\$ 47,506</u>

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

15. PARKING LOT REVENUE

The Museum owns two parcels of land, which were purchased for future expansion. One parcel is currently being utilized for the construction of a parking garage and the other parcel is being utilized for the current construction in process to expand the Museum's facilities. Parking lot revenue was generated from one lot during 2018 before construction began on the new parking garage. Related parking lot revenue of \$114,648 is reported on the statements of activities, net of costs required to generate the revenue and sales tax.

16. EMPLOYEE BENEFIT PLANS

The Museum has a 403(b) Plan (the "Plan"). The Plan is a voluntary retirement savings plan that allows pre-tax contributions from the employees' salaries. There is no minimum age or service requirement to make salary reduction contributions to the Plan. Employees are allowed to contribute up to the maximum amount allowed by the law. The Plan was amended in 2016 to provide for discretionary employer contributions. Employees are eligible for discretionary employer contributions after 1,000 hours of service and are 100% vested immediately. The Museum made contributions to the Plan of \$31,772 for the year ended December 31, 2018.

The Museum also set up a nonqualified deferred compensation plan pursuant to Internal Revenue Service Code Section 457(f) (the "457 Plan"), and made contributions to the 457 Plan of \$30,000 for the year ended December 31, 2018.

17. CONCENTRATIONS OF RISK

The majority of the Museum's operations are within the North Texas area. Therefore, results of operations and collectability of receivables are subject to economic conditions of the area.

Approximately 19% of pledges receivable are due from one donor at December 31, 2018. Approximately 17% of contributions were received from one donor during the year ended December 31, 2018.

Approximately 74% of purchases were paid to one vendor during the year ended December 31, 2018. Approximately 81% of accounts payable and accrued expenses are due to one vendor at December 31, 2018. These concentrations are attributable to the construction of the new museum.

18. RELATED PARTY TRANSACTIONS

The Museum receives insurance advisory services from a company with whom a member of the Museum's board of directors is employed. Commissions of \$3,861 were paid to this company for the year ended December 31, 2018. The Board of Directors of the Museum approved this related party transaction.

The Museum has \$9,157,652 of pledges receivable at December 31, 2018 and \$4,229,138 of contribution revenue for the year ended December 31, 2018 from members of the Board of Directors.

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19. SUBSEQUENT EVENTS

Total construction costs incurred related to the construction of the museum were approximately \$33,967,000 and total construction costs incurred related to the construction of the parking garage were approximately \$6,477,000 through April 26, 2019.

Management has evaluated subsequent events through April 30, 2019, the date the financial statements were available to be issued.