

**LIBERTY MEMORIAL ASSOCIATION
d/b/a THE NATIONAL WORLD WAR I
MUSEUM AND MEMORIAL**

YEARS ENDED DECEMBER 31, 2017 AND 2016



HOUSE PARK DOBRATZ & WIEBLER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**LIBERTY MEMORIAL ASSOCIATION
d/b/a THE NATIONAL WORLD WAR I
MUSEUM AND MEMORIAL**

YEARS ENDED DECEMBER 31, 2017 AND 2016

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HOUSE PARK DOBRATZ & WIEBLER, P.C.
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Independent Auditors' Report

Board of Trustees
Liberty Memorial Association
d/b/a The National World War I Museum and Memorial
Kansas City, Missouri

We have audited the accompanying financial statements of Liberty Memorial Association d/b/a The National World War I Museum and Memorial (the Museum) which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Liberty Memorial Association d/b/a The National World War I Museum and Memorial as of December 31, 2017 and 2016, 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.

House Park Dobratz & Wiebler, P.C.

Kansas City, Missouri
May 17, 2018

**LIBERTY MEMORIAL ASSOCIATION
d/b/a THE NATIONAL WORLD WAR I
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STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 3,490,646	\$ 2,472,967
Grants and accounts receivable, less allowance for doubtful accounts of \$8,692 and \$20,130 as of December 31, 2017 and 2016, respectively (Note 6)	178,283	376,827
Unconditional promises to give, less allowance for doubtful accounts of \$97,635 and \$76,500 as of December 31, 2017 and 2016, respectively (Note 2)	3,276,244	5,823,432
Missouri Development Finance Board receivable (Note 3)		1,416,274
Investments (Note 4)	4,174,986	3,623,453
Prepaid expenses	66,630	155,864
Inventory	139,351	140,586
Property and equipment (Note 5)	<u>10,126,219</u>	<u>6,360,444</u>
	<u>\$ 21,452,359</u>	<u>\$ 20,369,847</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 253,441	\$ 215,052
Accrued expenses	100,384	75,011
Deferred revenue (Note 9)	<u>239,308</u>	<u>219,983</u>
	<u>593,133</u>	<u>510,046</u>
Commitments (Note 11)		
Net assets:		
Unrestricted:		
Available for operations	11,900,949	7,633,322
Board-designated endowment (Note 8)	<u>293,262</u>	<u>260,533</u>
	12,194,211	7,893,855
Temporarily restricted (Note 7)	6,353,055	9,923,837
Permanently restricted (Note 8)	<u>2,311,960</u>	<u>2,042,109</u>
	<u>20,859,226</u>	<u>19,859,801</u>
	<u>\$ 21,452,359</u>	<u>\$ 20,369,847</u>

See notes to financial statements.

**LIBERTY MEMORIAL ASSOCIATION
d/b/a THE NATIONAL WORLD WAR I
MUSEUM AND MEMORIAL**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Contributions	\$ 373,434	\$ 1,524,771	\$ 269,851	\$ 2,168,056
Governmental grants (Note 9)	917,265			917,265
Special events:				
Gross revenue	709,247			709,247
Direct donor benefits	(25,976)			(25,976)
Memberships	<u>102,507</u>			<u>102,507</u>
Total support	2,076,477	1,524,771	269,851	3,871,099
Admissions, facility use and other	2,755,155	23,352		2,778,507
Merchandise sales	807,709			807,709
Investment income (Note 4)	42,470	639,830		682,300
Gain on disposal of property and equipment	<u>5,500</u>			<u>5,500</u>
Total revenue	5,687,311	2,187,953	269,851	8,145,115
Net assets released from restrictions (Note 7)	<u>5,758,735</u>	(5,758,735)		
	<u>11,446,046</u>	(3,570,782)	269,851	<u>8,145,115</u>
Expenses:				
Program services:				
Museum operations	4,238,574			4,238,574
Collections management and research	460,362			460,362
Public programs	<u>1,307,384</u>			<u>1,307,384</u>
Total program services	<u>6,006,320</u>			<u>6,006,320</u>
Supporting services:				
Management and general	645,398			645,398
Fundraising and development	<u>457,440</u>			<u>457,440</u>
Total supporting services	<u>1,102,838</u>			<u>1,102,838</u>
Total expenses	<u>7,109,158</u>			<u>7,109,158</u>
Change in net assets before collection purchases	4,336,888	(3,570,782)	269,851	1,035,957
Collection purchases	<u>36,532</u>			<u>36,532</u>
Change in net assets	4,300,356	(3,570,782)	269,851	999,425
Net assets, beginning of year	<u>7,893,855</u>	<u>9,923,837</u>	<u>2,042,109</u>	<u>19,859,801</u>
Net assets, end of year	<u>\$12,194,211</u>	<u>\$ 6,353,055</u>	<u>\$ 2,311,960</u>	<u>\$ 20,859,226</u>

See notes to financial statements.

**LIBERTY MEMORIAL ASSOCIATION
d/b/a THE NATIONAL WORLD WAR I
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STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Contributions	\$ 584,984	\$ 5,374,909	\$ 10,000	\$ 5,969,893
Governmental grants (Note 9)	928,250			928,250
Special events:				
Gross revenue	416,330			416,330
Direct donor benefits	(24,442)			(24,442)
Memberships	90,600			90,600
Total support	<u>1,995,722</u>	<u>5,374,909</u>	<u>10,000</u>	<u>7,380,631</u>
Admissions, facility use and other	2,223,762	4,405		2,228,167
Merchandise sales	643,747			643,747
Investment income (Note 4)	26,762	190,219		216,981
Total revenue	<u>4,889,993</u>	<u>5,569,533</u>	<u>10,000</u>	<u>10,469,526</u>
Net assets released from restrictions (Note 7)	<u>1,495,126</u>	<u>(1,495,126)</u>		
	<u>6,385,119</u>	<u>4,074,407</u>	<u>10,000</u>	<u>10,469,526</u>
Expenses:				
Program services:				
Museum operations	4,006,860			4,006,860
Collections management and research	494,447			494,447
Public programs	577,091			577,091
Total program services	<u>5,078,398</u>			<u>5,078,398</u>
Supporting services:				
Management and general	427,789			427,789
Fundraising and development	390,271			390,271
Total supporting services	<u>818,060</u>			<u>818,060</u>
Total expenses	<u>5,896,458</u>			<u>5,896,458</u>
Change in net assets before collection purchases	488,661	4,074,407	10,000	4,573,068
Collection purchases	<u>37,730</u>			<u>37,730</u>
Change in net assets	450,931	4,074,407	10,000	4,535,338
Net assets, beginning of year	<u>7,442,924</u>	<u>5,849,430</u>	<u>2,032,109</u>	<u>15,324,463</u>
Net assets, end of year	<u>\$ 7,893,855</u>	<u>\$ 9,923,837</u>	<u>\$ 2,042,109</u>	<u>\$ 19,859,801</u>

See notes to financial statements.

LIBERTY MEMORIAL ASSOCIATION
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STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 999,425	\$ 4,535,338
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	530,165	540,085
Realized (gains) losses on investments	(353,949)	14,615
Unrealized gains on investments	(257,964)	(158,427)
Gain on sale of property and equipment	(5,500)	
Changes in:		
Grants and accounts receivable	198,544	(222,673)
Unconditional promises to give	2,547,188	(2,939,974)
Missouri Development Finance Board receivable	1,416,274	(594,274)
Prepaid expenses	89,234	(114,224)
Inventory	1,235	(36,634)
Accounts payable	38,389	68,894
Accrued expenses	25,373	31,981
Deferred revenue	<u>19,325</u>	<u>9,677</u>
Net cash provided by operating activities	<u>5,247,739</u>	<u>1,134,384</u>
Cash flows from investing activities:		
Proceeds from investments, net	60,380	156,397
Purchase of property and equipment	<u>(4,290,440)</u>	<u>(445,613)</u>
Net cash used by investing activities	<u>(4,230,060)</u>	<u>(289,216)</u>
Net increase in cash and cash equivalents	1,017,679	845,168
Cash and cash equivalents at beginning of year	<u>2,472,967</u>	<u>1,627,799</u>
Cash and cash equivalents at end of year	<u>\$ 3,490,646</u>	<u>\$ 2,472,967</u>

See notes to financial statements.

LIBERTY MEMORIAL ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

1. Organization and summary of significant accounting policies:

Nature of activities:

Liberty Memorial Association d/b/a The National World War I Museum and Memorial (the Museum and Memorial), a Missouri not-for-profit corporation, was formed in 1920 to honor those who gave service during World War I through the construction of a memorial and museum complex in 1926. The Museum and Memorial buildings and the surrounding parklands, all told 47 acres, are owned by the City of Kansas City, Missouri (the City), and the Museum artifacts are owned by the Association. The original Museum and Memorial comprised two 2,550 square-foot buildings to house the collection, the Tower and additional exterior architectural elements and artistic renderings. On October 6, 2000, the Memorial was listed on the National Register of Historic Places. The original Memorial was restored in 2002 pursuant to guidelines established by the State of Missouri Historical Preservation Office and met the criteria of the Secretary of the Interior's Standards for the Treatment of Historic Properties. The Memorial's rededication ceremony was held on Memorial Day of 2002. As a result of the restoration, significant underground space became available for the expanded Museum exhibit area (30,000 square feet) and the associated research and archival storage areas (22,000 square feet). Restoration and expansion efforts were validated in the *Historic Structure, Landscape, and Preservation Planning Report for Liberty Memorial* prepared by John G. Waite Associates, Architects, PLLC.

The grand opening of the expanded Museum and Memorial, designated by the United States Congress as the National World War I Museum in 2004, took place on December 2, 2006. The expanded Museum displays or stores virtually all of the Museum and Memorial's collection of objects and artifacts. This rich collection has grown to more than 320,000 artifacts as of December 31, 2017. Pursuant to the guidelines of the American Association for State and Local History (AASLH), the collection has not been capitalized because the AASLH believes that collections are not financial assets, but constitute a separate category of resource directly fulfilling institutional missions, legal responsibilities and fiduciary obligations. The Museum and Memorial has agreed to follow the AASLH's *Statement of Professional Standards and Ethics*, which specifically concludes that collections shall not be capitalized nor treated as financial assets. Accessions to the collection, which often include multiple artifacts, totaled 228 and 174 in 2017 and 2016, respectively.

In 2014 the Congress of the United States designated the Memorial as a national World War I memorial, thereby giving the Museum and Memorial the designation as The National World War I Museum and Memorial.

The Museum and Memorial's core initiatives are supported by donor contributions, an agreement with the City and its Parks and Recreation Department for the operation and maintenance of the Memorial and revenues from admissions, space rentals, and the sale of merchandise. For financial statement purposes, the Museum's current programs are as follows:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

1. Organization and summary of significant accounting policies (continued):

Nature of activities (continued):

Museum operations – reflects the operating expenses of the Museum and Memorial (including the Liberty Memorial Tower, multiple exhibit halls, café, auditorium, and other event rental spaces), including care and upkeep of the 47-acre parkland, and the National World War I Museum.

Collections management and research – includes the curatorial team; as well as the cataloging, preservation, storage, research and exhibition of artifacts and archives, including digitization for on-line viewing of the collection.

Educational and other public programs – for staff, content and other costs associated with the public education and community interest programs, including youth outreach and on-line educational content.

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).

Financial transactions have been recorded in and reported by the following net asset groups:

Unrestricted net assets represent resources over which the Board of Trustees has discretionary control.

Unrestricted board designated net assets represent net assets restricted by the Board of Trustees for specified purposes.

Temporarily restricted net assets represent resources available for use currently or in the future, but expendable only for purposes specified by the donor or within a donor-designated time period. Resources of these funds originate from gifts and grants.

Permanently restricted net assets are those contributions whose use by the Museum is limited by donor-imposed stipulations that the corpus be held in perpetuity.

Unconditional promises to give:

Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the same year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

LIBERTY MEMORIAL ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

1. Organization and summary of significant accounting policies (continued):

Unconditional promises to give (continued):

The Museum estimates its allowance for doubtful accounts based on prior years' experience and management's analysis of specific promises made.

Investments:

Investments are reported at their fair values in the statements of financial position and changes in net assets. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the same year in which the income and gains are recognized.

Inventory:

Inventory comprises merchandise for resale and is stated at lower of cost, determined on the first-in, first-out basis, or market.

Property and equipment

The Museum facility is owned by the City, and the operating agreement with the City provides that certain property and equipment acquired by the Museum that is permanently affixed to the Memorial building and grounds will become the property of the City.

Property and equipment acquisitions by the Museum are recorded at cost in the financial statements and are being depreciated over the shorter of their estimated useful lives or the terms of the operating agreement, including renewals. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated assets to a specific purpose. The Museum capitalizes property and equipment over \$5,000.

Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Exhibition space and facility improvements	15-30
Transportation equipment	5
Equipment and furnishings	3-15

Deferred revenue:

Deferred revenue represents amounts received in advance from facility rentals, programs and the management fee received from the City for services to be provided in the subsequent year.

LIBERTY MEMORIAL ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

1. Organization and summary of significant accounting policies (continued):

Special events:

Direct donor benefits are shown as a reduction of related revenue on the accompanying statement of activities and changes in net assets. Direct donor benefits consist of food and beverage provided to attendees.

Contributed services:

A significant number of individuals contribute their services to the Museum as volunteers. The volunteers serve as greeters, docents, educational assistants, research assistants, perform other visitor service functions and provide administrative support. During 2017, 441 volunteers recorded 58,729 hours of service. The value of this contributed time is not reflected in these financial statements since it did not enhance non-financial assets or require specialized skills.

Use of estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure 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.

Income taxes:

The Museum is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Museum follows GAAP related to uncertain tax positions. The Organization's accounting policy is to provide liabilities for uncertain income tax provisions when a liability is probable and estimable.

The Museum had no uncertain income tax positions for the years ended December 31, 2017 and 2016, and is not aware of any violation of its tax status as an organization exempt from income taxes. The Museum is no longer subject to audits for Federal or state purposes for years prior to 2014.

Concentrations of credit risk:

Financial instruments which potentially subject the Museum to significant concentrations of credit risk consist principally of cash and cash equivalents and investments. The Museum maintains its bank accounts at financial institutions with a high credit standing located in the Kansas City metropolitan area where accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balance in these accounts frequently exceeds federally-insured limits. Cash equivalents of \$223,777 and \$107,005 at December 31, 2017 and 2016, respectively, are invested in money market funds which are not insured by the FDIC, but are secured by Government bonds.

**LIBERTY MEMORIAL ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

1. Organization and summary of significant accounting policies (continued):

Concentrations of credit risk (continued):

The Museum invests in various investment securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

The Museum received funding from the City totaling \$873,615 and \$810,250 for the years ended December 31, 2017 and 2016, respectively. These amounts represent 8% and 12% of the total revenue for the years ended December 31, 2017 and 2016, respectively.

The City also served as a conduit for the pass-through of funds from the Missouri Development Finance Board (Note 3).

Reclassification:

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Subsequent events:

Subsequent events have been evaluated through May 17, 2018, which is the date the financial statements were available to be issued.

2. Unconditional promises to give:

Unconditional promises to give consist of the following:

	<u>2017</u>	<u>2016</u>
Gallery capital campaign	\$ 550,000	\$ 3,091,667
Education programs	337,958	145,000
Strategic initiatives	962,500	962,500
Unrestricted	<u>1,605,850</u>	<u>1,700,765</u>
	3,456,308	5,899,932
Allowance for doubtful accounts	<u>(97,635)</u>	<u>(76,500)</u>
	3,358,673	5,823,432
Discount to present value	<u>(82,429)</u>	<u> </u>
	<u>\$ 3,276,244</u>	<u>\$ 5,823,432</u>

LIBERTY MEMORIAL ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

2. Unconditional promises to give (continued):

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 1,540,907	\$ 3,733,267
One to five years	<u>1,735,337</u>	<u>2,090,165</u>
	<u>\$ 3,276,244</u>	<u>\$ 5,823,432</u>

Unconditional promises to give due more than one year from December 31, 2017 have been discounted at 4.75%.

3. Missouri Development Finance Board receivable:

Effective March 27, 2015, the Museum entered into a tax credit agreement with the Missouri Development Finance Board (the Board). Under the terms of the agreement, the Board was to accept contributions from donors up to \$3,600,000 and make the proceeds available to the Museum. The Board was to issue tax credits to the donors up to \$1,800,000. The tax credits could be used by the donors to reduce the amount of income taxes owed to the State of Missouri. The Board was to charge an administrative fee of 4%. The agreement expired December 31, 2017.

The proceeds must be used for improvements and additions to the East Wing of the Museum facility (the Project). The Museum was required to submit a disbursement request to the Board detailing the expenses incurred with the Project in order for the Board to release funds to the Museum.

The City partnered with the Museum and the Board on this agreement, acting as a conduit for the pass-through of the funds.

During the years ended December 31, 2017 and 2016, the Board received the following contributions:

	<u>2017</u>	<u>2016</u>
Contributions	\$ 1,058,000	\$ 856,250
Administrative fee	<u>(42,320)</u>	<u>(34,250)</u>
Amount available to the Museum	<u>\$ 1,015,680</u>	<u>\$ 822,000</u>

In 2017, the Board disbursed \$2,431,954 to the Museum. There was no balance due to the Museum as of December 31, 2017.

**LIBERTY MEMORIAL ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

4. Investments:

	<u>Fair value</u>	<u>Cost</u>	<u>Excess of fair value (cost)</u>
December 31, 2017:			
Unrestricted:			
Money market funds	\$ 19,485	\$ 19,485	
Equity funds	162,137	144,597	
Fixed income funds	106,994	107,885	
Alternative investments	4,646	5,000	
Total unrestricted	<u>293,262</u>	<u>276,967</u>	
Temporarily restricted:			
Money market funds	116,929	116,929	
Certificates of deposit	200,008	200,000	
Equity funds	683,685	617,876	
Fixed income funds	334,663	331,245	
Total temporarily restricted	<u>1,335,285</u>	<u>1,266,050</u>	
Permanently restricted:			
Money market funds	87,363	87,363	
Common stock	544,943	409,051	
Equity funds	1,044,676	862,568	
Fixed income funds	240,372	252,192	
Government and agency bonds	187,373	190,858	
Corporate bonds	407,055	408,200	
Alternative investments	34,657	37,300	
Total permanently restricted	<u>2,546,439</u>	<u>2,247,532</u>	
Balance, end of year	<u>\$4,174,986</u>	<u>\$3,790,549</u>	\$ 384,437
Balance, beginning of year	<u>\$3,623,453</u>	<u>\$3,496,980</u>	126,473
Unrealized gain for the year			257,964
Realized gains			<u>353,949</u>
Net realized and unrealized gains on investments			<u>\$ 611,913</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Interest and dividends	\$ 15,653	\$ 68,842	\$ 84,495
Net realized gains	3,883	350,066	353,949
Net unrealized gains	22,934	235,030	257,964
Investment fees	<u> </u>	<u>(14,108)</u>	<u>(14,108)</u>
	<u>\$ 42,470</u>	<u>\$ 639,830</u>	<u>\$ 682,300</u>

LIBERTY MEMORIAL ASSOCIATION
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

4. Investments (continued):

	<u>Fair value</u>	<u>Cost</u>	<u>Excess of fair value (cost)</u>
December 31, 2016:			
Unrestricted:			
Money market funds	\$ 19,215	\$ 19,215	
Equity funds	137,644	139,922	
Fixed income funds	94,406	97,457	
Alternative investments	<u>9,268</u>	<u>10,579</u>	
Total unrestricted	<u>260,533</u>	<u>267,173</u>	
Temporarily restricted:			
Money market funds	18,399	18,399	
Certificates of deposit	299,778	300,000	
Equity funds	352,802	326,430	
Fixed income funds	<u>323,870</u>	<u>323,699</u>	
Total temporarily restricted	<u>994,849</u>	<u>968,528</u>	
Permanently restricted:			
Money market funds	69,390	69,390	
Common stock	558,701	482,528	
Equity funds	824,056	769,201	
Fixed income funds	213,213	225,875	
Government and agency bonds	209,313	213,041	
Corporate bonds	420,296	423,244	
Alternative investments	<u>73,102</u>	<u>78,000</u>	
Total permanently restricted	<u>2,368,071</u>	<u>2,261,279</u>	
Balance, end of year	<u>\$3,623,453</u>	<u>\$3,496,980</u>	\$ 126,473
Balance, beginning of year	<u>\$3,636,038</u>	<u>\$3,667,992</u>	(31,954)
Unrealized gain for the year			158,427
Realized losses			(14,615)
Net realized and unrealized gains on investments			<u>\$ 143,812</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Interest and dividends	\$ 12,396	\$ 74,250	\$ 86,646
Net realized gains (losses)	1,050	(15,665)	(14,615)
Net unrealized gains	13,316	145,111	158,427
Investment fees	<u> </u>	(13,477)	(13,477)
	<u>\$ 26,762</u>	<u>\$ 190,219</u>	<u>\$ 216,981</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

4. Investments (continued):

The Museum follows GAAP which defines fair value as the price that would be received from selling an asset in an orderly transaction between market participants at the measurement date and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs including quoted prices in active markets for similar assets and Level 3 inputs consist of unobservable inputs that are supported by little or no market activity and have the lowest priority.

The Museum uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Museum measures fair value using Level 1 inputs because they generally provided the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. As of December 31, 2017 and 2016, all of the Museum's investments were valued using Level 1 inputs.

5. Property and equipment:

	<u>2017</u>	<u>2016</u>
Exhibition space	\$ 7,462,452	\$ 7,212,804
Facility improvements	1,221,751	1,105,418
Transportation equipment	17,295	34,307
Equipment and furnishings	2,096,747	2,024,946
Construction in process	<u>4,102,451</u>	<u>244,293</u>
	14,900,696	10,621,768
Accumulated depreciation	<u>(4,774,477)</u>	<u>(4,261,324)</u>
	<u>\$10,126,219</u>	<u>\$ 6,360,444</u>

Depreciation expense was \$530,165 and \$540,085 for the years ended December 31, 2017 and 2016.

6. Line of credit:

The Museum has a line of credit with a bank for \$1,000,000. The line is secured by receivables, bears interest at 4.75% and matures July 25, 2018. No amounts were drawn on this line of credit during the years ended December 31, 2017 and 2016. There is an annual maintenance fee of \$1,000 associated with this loan.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

7. Restricted net assets:

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Artifact acquisition, including endowment net assets of \$63,745 and \$46,598 as of December 31, 2017 and 2016, respectively (Note 8)	\$ 69,745	\$ 52,453
Collection digitization	285,207	15,207
Education center furnishings	27,034	27,034
Educational, lecture and other, including endowment net assets of \$451,349 and \$290,149 as of December 31, 2017 and 2016, respectively (Note 8)	1,622,974	1,726,390
Gallery expansion	1,392,930	4,658,026
Long-term pledges	1,275,850	1,563,291
Upgrades to guest experience and auditorium	<u>1,679,315</u>	<u>1,881,436</u>
	<u>\$ 6,353,055</u>	<u>\$ 9,923,837</u>

Net assets released from donor restrictions by incurring expenses satisfying the purpose or time restrictions were as follows:

	<u>2017</u>	<u>2016</u>
Artifact acquisition	\$ 5,840	\$ 6,160
Educational, lecture and other	409,441	450,498
Gallery expansion	4,285,945	699,234
Other	705,288	290,000
Upgrades to Guest Experience and auditorium	<u>352,221</u>	<u>49,234</u>
	<u>\$ 5,758,735</u>	<u>\$ 1,495,126</u>

8. Endowment funds:

The State of Missouri has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides guidance and authority concerning the management and investment of donor funds and provides the Museum's governing board certain guidelines to use when determining what is prudent in terms of retaining and spending permanently restricted donor funds. Under the provision of UPMIFA, organizations are required to maintain and report endowment funds based upon donor intent, whether explicit or implied. Based on its interpretation of the provisions of UPMIFA and a review of underlying endowment agreements, management has determined that maintaining permanent endowments at their historic dollar value is appropriate and consistent with the intent of the Museum's donors.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

8. Endowment funds (continued):

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's original value, generally due to unfavorable market fluctuations. Deficiencies of this nature are reported as a decrease in unrestricted net assets. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets. There were no such deficiencies at December 31, 2017 or 2016.

The Museum's permanently restricted net assets consist of a permanent endowment fund established in connection with the award of a \$500,000 National Endowment for the Humanities (NEH) Challenge Grant to the Museum, subject to a matching requirement of one dollar of NEH funds for every three dollars raised by the Museum. This matching requirement was met in 2009. The income from the endowment is to be used 90% for educational programming and 10% for artifact acquisition.

The Museum is strengthening its philanthropic engagement with the intent of building its endowment and reserve funds. The Museum seeks to create various endowed funds to support all aspects of Museum operations, care and upkeep of the Memorial and upkeep of the grounds. A comprehensive fundraising campaign 'Call to Duty' is supporting these initiatives.

Board-designated endowment consists of an endowment fund established in 2009 to provide resources to support the Museum's operations.

The changes in the endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of year	\$ 260,533	\$ 336,747	\$ 2,042,109	\$ 2,639,389
Contributions	3,745		269,851	273,596
Interest and dividend income, net of expenses	6,086	36,009		42,095
Net realized and unrealized gains	26,817	262,514		289,331
Grants	(3,919)	(120,176)		(124,095)
End of year	<u>\$ 293,262</u>	<u>\$ 515,094</u>	<u>\$ 2,311,960</u>	<u>\$ 3,120,316</u>

The Museum has adopted investment and spending policies for endowment and other extended-time horizon assets that attempt to provide a reasonable rate of return as a source of funding to programs supported by its endowments. Under the investment policy, endowment assets are to be invested in various asset classes while assuming a reasonable level of investment risk.

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YEARS ENDED DECEMBER 31, 2017 AND 2016

8. Endowment funds (continued):

To satisfy its long-term objectives of equity preservation and growth, the Museum has adopted a total return strategy for investment returns through both capital appreciation and current income using an asset allocation policy that allows for investing in equity-related securities to achieve its return objectives. The current target allocation for these assets is 45% money market and fixed income investments and 55% equities; and the current target allocation for mid-term assets (3-5 year time horizon) is 70% money market and fixed income funds and 30% equity funds, which are within the specified ranges of the current investment policy.

The Museum's spending policy for endowment allows for the use of up to 5% of the prior three year-end average market values.

9. Agreement with the City of Kansas City, Missouri:

The Museum has an agreement with the City to manage the Memorial as well as the surrounding 47-acre parkland, and to exhibit artifacts and otherwise operate the Museum, including providing maintenance and security. The agreement expires August 25, 2032, but will automatically renew for successive five-year periods unless terminated as provided for in the agreement. The agreement also provides that property and equipment, other than that acquired with the proceeds of bonds issued by the City or permanently affixed to the Memorial, will become the property of the Museum. Under a previous agreement, all property and equipment, even if acquired by the Museum, was considered to be owned by the City.

The management and operating fee is \$625,000 annually, subject to appropriation from the City's general fund, net of certain costs paid for by the City, and is for the period May 1 to April 30 each year. The portion of the payment received by the Museum that pertains to the subsequent year is included in deferred revenue in the accompanying statements of financial position.

The Liberty Memorial Trust Fund (Fund), held by the City for the benefit of the Museum and Memorial, was created in 2000. The amount received by the Museum from the Fund annually to help pay for maintenance, utilities and security is equal to 45% of the earnings from the Fund.

The Fund had an initial balance of \$15.7 million when created in 2000, and the balance was approximately \$10.8 million at December 31, 2017. Any amounts received by the Museum in excess of actual expenses are to be returned to the City. There were no amounts required to be returned to the City as of December 31, 2017 or 2016.

The City also makes grants for specific purposes to the Museum. All amounts received from the City are included in governmental grants in the accompanying statement of activities and changes in net assets.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

9. Agreement with the City of Kansas City, Missouri (continued):

Amounts received from the City during 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Management fee	\$ 625,000	\$ 625,000
Maintenance and security	60,615	47,250
Other special projects	88,000	38,000
Centennial grant	<u>100,000</u>	<u>100,000</u>
	<u>\$ 873,615</u>	<u>\$ 810,250</u>

The City also served as a conduit for the pass-through of funds from the Missouri Development Finance Board (Note 3).

10. Retirement Plan:

The Museum has a 401(k) plan covering all employees who meet minimum age and service requirements. Participants may contribute up to the maximum allowed by law (\$18,000 for 2017). If a participant is age 50 or older by the end of the year, s/he may also make “catch-up” contributions up to \$6,000.

The Museum matches 100% of employee deferrals up to 3% of compensation and 50% of deferrals that exceed 3% of compensation, but do not exceed 5% of compensation. Matching contributions were \$93,390 and \$50,682 in 2017 and 2016, respectively. The Museum also provided an extra “Museum Contribution” to virtually all employees for 2017. The contribution is calculated using a percentage of employee salary. The Museum contribution was \$31,741 in 2017, the first year this benefit was offered to employees.

11. Operating leases:

During 2017, the Museum entered into separate leases for various office equipment and software. Rent expense attributable to operating leases during 2017 was \$17,901.

Future minimum lease payments having remaining terms in excess of one year are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2018	\$ 37,537
2019	43,077
2020	29,012
2021	18,075
2022	<u>9,830</u>
	<u>\$ 137,531</u>