

NATIONAL LIBERTY MUSEUM

***FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

YEARS ENDED DECEMBER 31, 2016 AND 2015

NATIONAL LIBERTY MUSEUM

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**To the Board of Directors of
National Liberty Museum
Philadelphia, Pennsylvania**

We have audited the accompanying financial statements of National Liberty Museum (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities 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 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 organization'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 organization'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 National Liberty Museum as of December 31, 2016, 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.

**To the Board of Directors of
National Liberty Museum
Philadelphia, Pennsylvania**

Report on Summarized Comparative Information

We have previously audited National Liberty Museum's financial statements as of December 31, 2015 and we expressed an unmodified opinion on those audited financial statements in our report dated May 31, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
June 6, 2017**

NATIONAL LIBERTY MUSEUM

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 And 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 1,744,662	\$ 1,562,937
Due from affiliate	-	2,000
Prepaid expenses and other	49,781	113,212
Contributions and grants receivable, net	1,108,963	1,208,755
Inventory, net	1,155,483	1,209,012
Investments	13,865,690	13,536,300
Property and equipment, net	2,445,086	2,477,428
Collections	<u>2,768,609</u>	<u>2,768,609</u>
Total assets	<u>\$ 23,138,274</u>	<u>\$ 22,878,253</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 118,340	\$ 151,515
Liability under charitable gift annuities	<u>187,579</u>	<u>198,609</u>
Total liabilities	<u>305,919</u>	<u>350,124</u>
Net assets		
Unrestricted	19,517,619	19,005,052
Temporarily restricted	696,130	906,638
Permanently restricted	<u>2,618,606</u>	<u>2,616,439</u>
Total net assets	<u>22,832,355</u>	<u>22,528,129</u>
Total liabilities and net assets	<u>\$ 23,138,274</u>	<u>\$ 22,878,253</u>

NATIONAL LIBERTY MUSEUM

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016 With Summarized Information For 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
Revenue, gains and other support					
Contributions and grants	\$ 638,209	\$ 586,361	\$ 2,167	\$ 1,226,737	\$ 1,009,333
Admissions	94,536	-	-	94,536	89,860
Membership dues	19,405	-	-	19,405	2,100
Special events, net of expenses of \$531,713 in 2016 and \$407,997 in 2015	442,551	-	-	442,551	339,642
Gift shop sales, net of cost of sales of \$94,045 in 2016 and \$76,675 in 2015	52,970	-	-	52,970	57,651
Donated use of facility	396,000	-	-	396,000	396,000
Other	105,096	-	-	105,096	43,547
Net assets released from restrictions	<u>796,869</u>	<u>(796,869)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>2,545,636</u>	<u>(210,508)</u>	<u>2,167</u>	<u>2,337,295</u>	<u>1,938,133</u>
Expenses					
Program activities	2,411,258	-	-	2,411,258	2,779,779
Fundraising	376,113	-	-	376,113	185,574
Management and general	<u>358,214</u>	<u>-</u>	<u>-</u>	<u>358,214</u>	<u>323,962</u>
Total expenses	<u>3,145,585</u>	<u>-</u>	<u>-</u>	<u>3,145,585</u>	<u>3,289,315</u>
Excess (deficit) of revenue over expenses	(599,949)	(210,508)	2,167	(808,290)	(1,351,182)
Other changes					
Investment return designated for current operations	104,361	-	-	104,361	103,035
Investment return in excess (deficit) of amounts designated for current operations	87,089	-	-	87,089	(168,997)
Other investment income (loss)	944,036	-	-	944,036	(456,537)
Actuarial loss on annuity obligations	<u>(22,970)</u>	<u>-</u>	<u>-</u>	<u>(22,970)</u>	<u>(24,854)</u>
Change in net assets	512,567	(210,508)	2,167	304,226	(1,898,535)
Net assets					
Beginning of year	<u>19,005,052</u>	<u>906,638</u>	<u>2,616,439</u>	<u>22,528,129</u>	<u>24,426,664</u>
End of year	<u>\$19,517,619</u>	<u>\$ 696,130</u>	<u>\$2,618,606</u>	<u>\$22,832,355</u>	<u>\$22,528,129</u>

NATIONAL LIBERTY MUSEUM

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 And 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 304,226	\$ (1,898,535)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation and amortization	245,703	248,074
Realized and unrealized (gain) loss on investments	(845,329)	858,916
Change in charitable gift annuities	22,970	24,854
Effect of changes in operating assets and liabilities		
Pledges receivable	99,792	1,180,383
Prepaid expenses and other	63,431	387,951
Inventory	53,529	63,635
Due from affiliate	2,000	98,000
Accounts payable and accrued expenses	(33,175)	(405,436)
Liability under charitable gift annuities	<u>(34,000)</u>	<u>(34,000)</u>
Net cash provided by (used for) operating activities	<u>(120,853)</u>	<u>523,842</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(213,361)	(6,198)
Proceeds from sale of investments	2,633,246	17,844,339
Purchases of investments	<u>(2,117,307)</u>	<u>(18,708,510)</u>
Net cash provided by (used for) investing activities	<u>302,578</u>	<u>(870,369)</u>
Net increase (decrease) in cash and cash equivalents	181,725	(346,527)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,562,937</u>	<u>1,909,464</u>
End of year	<u>\$ 1,744,662</u>	<u>\$ 1,562,937</u>

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 And 2015

(1) NATURE OF ACTIVITIES

ORGANIZATION

National Liberty Museum (“NLM”) or the “*Organization*” is a not-for-profit organization granted tax exempt status under Section 501(c)(3) of the Internal Revenue Code. Located in the heart of historic Philadelphia, NLM is dedicated to preserving America’s heritage of freedom by encouraging people to find their own place in the story of liberty. Visitors to the Museum enjoy an inspiring and entertaining experience, as they interact with incredible stories of heroes and a collection of contemporary art. NLM’s core themes for young people and adults include leadership and good character; diversity and inclusion; peaceful conflict resolution; and civic engagement. The primary art form is glass art, as it makes the point that freedom is as fragile as glass.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING ESTIMATES

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

NLM’s estimates primarily relate to allowances for doubtful accounts, inventory reserves and depreciation

BASIS OF ACCOUNTING

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in banks, money market funds and highly liquid investments purchased with an original maturity of three months or less.

CONCENTRATION OF CREDIT RISK

Substantially all of the contributions receivable are derived from individual, corporate or foundation donors. All of these receivables are made on an unsecured basis.

The Organization maintains its cash and cash equivalents in bank deposit and money market accounts, which at times exceed federally insured limits. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Organization’s investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risk in the near term could materially affect investment balances and the amounts reported in the financial statements. Management believes that the investment policy is prudent for the long term welfare of the Organization.

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

CONTRIBUTIONS

Contributions are recognized when the donor or grantor makes a pledge or contribution to NLM that is unconditional. Donor and grantor-restricted contributions are reported at fair value as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions and grants receivable represent unconditional promises received from donors and grantors. Contributions to be collected or paid after one year are discounted at the net present value of their future cash receipts using effective interest rates ranging from 1% to 8%. Management determines the allowance for uncollectible contributions receivable based on its estimate of realization of the underlying contribution. Individual contributions are written off when deemed uncollectible. Contributions are not measured at fair value subsequent to this initial measurement.

Contributions receivable from a private grantor represented \$247,347 of total gross contributions receivable at December 31, 2015.

INVENTORY

Inventory consists principally of glass items and is stated at lower of specifically identified cost or market. An allowance for glass items has been established based on past history. Such amount totaled \$321,236 and \$301,412 at December 31, 2016 and 2015, respectively. For glass items donated by the artist, no appraisal is conducted. Therefore, no cost/fair value is assigned at the date of donation. All other donated inventory is recorded at appraised/fair value on date of donation.

INVESTMENTS

Investments are stated at fair value or estimated fair value measured as described in Note 4. Any gains or losses, realized or unrealized, are included in investment income in the statement of activities.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the related assets (ranging from 3 to 30 years) using the straight-line method. Leasehold improvements are amortized over the estimated useful life of the improvement or the remaining lease term, whichever is shorter, using the straight-line method. Expenditures of \$5,000 or more that extend the useful life of the respective assets are capitalized, while repairs and maintenance are expensed as incurred.

CHARITABLE GIFT ANNUITY AGREEMENTS

Contributions received through charitable gift annuity agreements are recognized in the period in which the contract is executed. Assets received are recorded at fair value when received and annuity payment liabilities are recorded at the present value of the estimated future payments to the donors using discount rates ranging from 5% to 7.6%. Adjustments to the annuity liability to reflect amortization and changes in the life expectancy of the donors are recognized in the statement of activities.

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

COLLECTIONS

The Organization capitalizes its collections of artwork. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their appraised or fair value on the accession date. Collections are not depreciated. Gains or losses on the sale of collection items are classified on the statement of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession.

NET ASSETS

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

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of NLM and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by NLM. Generally, the donors of these assets permit NLM to use all or part of the income earned on related investments for general purposes

SPECIAL EVENTS

Special events revenues and costs are recognized upon completion of the related event.

DONATED FACILITIES

As discussed in Note 10, NLM leases a building owned by its related party affiliate. The lease agreement provides for annual renewals to the year 2025 at an annual rental of \$1. Management estimated the fair value of the annual lease and recorded such fair value as support and related occupancy expense of \$396,000 for the years ended December 31, 2016 and 2015.

ADVERTISING

The Organization expenses advertising costs as incurred. Advertising expense was \$17,386 and \$9,666 for the years ended December 31, 2016 and 2015, respectively.

EXPENSE ALLOCATION

Directly identifiable expenses are charged to programs and supporting services. Costs that constitute an appeal for financial support are charged to fundraising expenses. Expenses related to more than one function are charged to programs and supporting services based on estimates of time spent. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide the overall support and direction of the Organization. Such costs are expensed as incurred.

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

INCOME TAXES

NLM is a non-profit organization which has been determined by the Internal Revenue Service to be exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation

Management has reviewed the tax positions for each of the open tax years (December 31, 2013 – December 31, 2015) or expected to be taken in the Organization's tax return for the year ending December 31, 2016 and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

PRIOR YEAR SUMMARIZED INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with NLM's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

(3) CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions receivable consist of amounts expected to be collected as follows at December 31:

	<u>2016</u>	<u>2015</u>
Amount due in:		
Less than one year	\$ 1,265,499	\$ 1,136,139
One to five years	384,500	578,901
Greater than five years	<u>-</u>	<u>60,000</u>
Gross contributions receivable	1,649,999	1,775,040
Less: Present value discount	<u>(195,392)</u>	<u>(220,641)</u>
	1,454,607	1,554,399
Less: allowance for doubtful accounts	<u>(345,644)</u>	<u>(345,644)</u>
	<u>\$ 1,108,963</u>	<u>\$ 1,208,755</u>

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

(4) INVESTMENTS

Investments consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Debt Securities:		
Israel Bonds	\$ 20,500	\$ 21,500
Mutual Funds:		
Equities		
Domestic	6,476,070	7,045,111
International	2,667,494	2,255,709
Fixed Income Securities	4,581,753	4,094,107
Bank Certificates of Deposit	<u>119,873</u>	<u>119,873</u>
	<u>\$ 13,865,690</u>	<u>\$ 13,536,300</u>

The above investments include funds held under charitable gift annuity agreements, totaling \$271,965 and \$291,924 at December 31, 2016 and 2015, respectively.

Investment income (loss) consists of the following for the year ended December 31:

	<u>2016</u>			
	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Interest and dividends	\$ 290,157	\$ 241,527	\$ -	\$ 48,630
Realized and unrealized gain	<u>845,329</u>	<u>702,509</u>	<u>-</u>	<u>142,820</u>
	<u>\$1,135,486</u>	<u>\$ 944,036</u>	<u>\$ -</u>	191,450
Investment return designated for current operations				<u>104,361</u>
Investment return in excess of amounts designated for current operations				<u>\$ 87,089</u>
	<u>2015</u>			
	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Interest and dividends	\$ 336,417	\$ 294,425	\$ -	\$ 41,992
Realized and unrealized loss	<u>(858,916)</u>	<u>(750,962)</u>	<u>-</u>	<u>(107,954)</u>
	<u>\$(522,499)</u>	<u>\$(456,537)</u>	<u>\$ -</u>	(65,962)
Investment return designated for current operations				<u>103,035</u>
Investment return in deficit of amounts designated for current operations				<u>\$ (168,997)</u>

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

Included in unrestricted interest and dividend income are bank fees of \$70,626 and \$54,199 for the years ended December 31, 2016 and 2015, respectively. Included in permanently restricted interest and dividend income are bank fees of \$14,078 and \$9,128 for the years ended December 31, 2016 and 2015, respectively.

Included in total net gain on investments is an unrealized gain of \$597,344 and a loss of \$1,929,848 for the years ended December 31, 2016 and 2015, respectively.

(5) FAIR VALUE MEASUREMENTS

NLM utilized various methods to measure the fair value of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritize inputs to valuation methods. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that NLM has the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment schedules, credit risk, yield curves, default rates and similar data.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the NLM's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The summary of inputs used to value the NLM's investments as of December 31, 2016 and 2015 is as follows:

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
Debt Securities:				
Israel Bonds	\$ -	\$ 20,500	\$ -	\$ 20,500
Mutual Funds				
Equities				
Domestic	6,476,070	-	-	
International	2,667,494	-	-	
Fixed Income Securities	4,581,753	-	-	
Bank Certificates of Deposit	-	119,873	-	119,873
	<u>\$13,725,317</u>	<u>\$140,373</u>	<u>\$ -</u>	<u>\$13,865,690</u>

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

	December 31, 2015			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Debt Securities:				
Israel Bonds	\$ -	\$ 21,500	\$ -	\$ 21,500
Mutual Funds				
Equities				
Domestic	7,045,111	-	-	7,045,111
International	2,255,709	-	-	2,255,709
Fixed Income Securities	4,094,107	-	-	4,094,107
Bank Certificates of Deposit	-	119,873	-	119,873
	<u>\$13,394,927</u>	<u>\$141,373</u>	<u>\$ -</u>	<u>\$13,536,300</u>

The description of the valuation applied to the Organization's major categories of assets measured at fair value on a recurring basis is as follows:

DEBT SECURITIES

Level 1: *U.S. Treasury Obligations* are categorized in Level 1 of the fair value hierarchy and are valued using quoted market prices.

Level 2: *U.S. Government Sponsored/Agency Securities* consist of government sponsored mortgage-backed securities and agency-issued debt. These securities are categorized in Level 2 of the fair value hierarchy and are priced using quoted market prices for similar instruments or market prices that are corroborated by observable market data. The Organization uses inputs such as broker/dealer quotes and other similar data, which are obtained from quoted market prices, outside pricing services, computerized pricing models, or other sources to determine the ultimate fair value of these assets.

Level 2: *Corporate Bonds, and Israel Bonds* are categorized in Level 2 of the fair value hierarchy and are priced using quoted market prices for similar instruments or market prices that are corroborated by observable market data. The Organization uses inputs such as broker/dealer quotes and other similar data, which are obtained from quoted market prices, outside pricing services, computerized pricing models, or other sources to determine that ultimate fair value of these assets.

MUTUAL FUNDS

Level 1: *Mutual Funds* are categorized in Level 1 of the fair value hierarchy and are valued using quoted market prices.

BANK CERTIFICATES OF DEPOSIT

Level 2: *Certificates of Deposits* are categorized in Level 2 of the fair value hierarchy and are priced using quoted market prices for similar instruments or market prices that are corroborated by observable market data. The Organization uses inputs such as third-party quotations.

There was no change in the valuation techniques used to measure fair value of investments in the years ended December 31, 2016 or 2015

There were no transfers between Level 1 and Level 2 in the years ended December 31, 2016 and 2015.

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

(6) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 2,399,713	\$ 2,399,713
Gallery exhibits	3,189,436	3,189,436
Construction in progress	213,361	-
Furniture, fixtures and equipment	<u>100,862</u>	<u>100,862</u>
	5,903,372	5,690,011
Less: accumulated depreciation and amortization	<u>(3,458,286)</u>	<u>(3,212,583)</u>
	<u>\$ 2,445,086</u>	<u>\$ 2,477,428</u>

Depreciation and amortization expenses amounted to \$245,703 and \$248,074 for the years ended December 31, 2016 and 2015, respectively.

(7) LINE OF CREDIT

The Organization has a \$500,000 line of credit. There was no outstanding balance on the demand facility at December 31, 2016 and 2015. The interest rate was based on the one-month LIBOR plus 195 basis points, payable monthly in arrears. The credit line was secured by a money market account with the bank.

(8) NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Time restricted for use in a future period	\$ 516,518	\$ 848,493
Purpose restricted based on spending in accordance with grant agreements	<u>179,612</u>	<u>58,145</u>
	<u>\$ 696,130</u>	<u>\$ 906,638</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the following purposes or by other events specified by the donors:

	<u>2016</u>
Satisfaction of time restrictions	\$ 567,336
Young Heroes program	178,000
Templeton Liberty grant	<u>51,533</u>
	<u>\$ 796,869</u>

Permanently restricted net assets, including all endowments, consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 89,920	\$ 61,565
Investments	2,528,686	2,533,991
Pledges receivable, net	<u>-</u>	<u>20,883</u>
	<u>\$ 2,618,606</u>	<u>\$ 2,616,439</u>

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

ENDOWMENTS

The Organization's endowments consist of funds established to support its general operations and for an annual event specified by a donor. All endowment funds are donor-restricted funds.

INTERPRETATION OF RELEVANT LAW

The Commonwealth of Pennsylvania has not adopted Uniform Prudent Management of Institutional Funds Act of 2006 (*UPMIFA*). Pennsylvania state law allows non-profit organizations to make an annual election to appropriate for spending a selected percentage between 2% and 7% of the fair value of assets related to the endowment funds. Effective January 1, 2015, NLM adopted an investment policy seeking a total return for the assets held by the organization. Upon adoption, total return is to be derived from interest, dividends and net capital appreciation (both realized and unrealized). The Board of Directors selected a percentage to be appropriated for spending that is consistent with the long-term preservation of the real value of assets. This percentage for the years ended December 31, 2016 and 2015 was 5% of the three year average market value of the assets.

The Board of the Organization has interpreted Pennsylvania state law as requiring the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor preservation of stipulations to the contrary be maintained in perpetuity. As a result of this interpretation, the Organization classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) enhancements or diminutions of the fund after amounts deemed income under Pennsylvania law.

RETURN OBJECTIVE AND RISK PARAMETERS

The Organization's object is to earn a reasonable, long-term risk adjusted total rate of return to support its designated programs. The Organization recognizes and accepts that pursuing a reasonable rate of return involves risk and potential volatility. The generation of current income is also a consideration. The Organization targets a diversified asset allocation between equity-based investments and fixed income securities to achieve its long-term return objectives and generate current income within prudent risk constraints.

Endowment net assets composition by type of fund as of December 31, 2016 and 2015:

	2016			
	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowments	<u>\$2,536,698</u>	<u>\$(81,908)</u>	<u>\$ -</u>	<u>\$ 2,618,606</u>

	2015			
	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowments	<u>\$2,447,442</u>	<u>\$(168,997)</u>	<u>\$ -</u>	<u>\$2,616,439</u>

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

The Organization had the following endowment-related activities during the year ended December 31:

	2016			
	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning	\$ 2,447,442	\$ (168,997)	\$ -	\$ 2,616,439
Investment return:				
Interest and dividends, net of fees	48,630	48,630	-	-
Net appreciation(depreciation)	<u>142,820</u>	<u>142,820</u>	<u>-</u>	<u>-</u>
Total investment return	<u>191,450</u>	<u>191,450</u>	<u>-</u>	<u>-</u>
Contributions	2,167	-	-	2,167
Investment return designated for current operations	<u>(104,361)</u>	<u>(104,361)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 2,536,698</u>	<u>\$ (81,908)</u>	<u>\$ -</u>	<u>\$ 2,618,606</u>
	2015			
	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning	\$ 2,556,851	\$ -	\$ -	\$ 2,556,851
Investment return:				
Interest and dividends, net of fees	41,992	41,992	-	-
Net appreciation(depreciation)	<u>(107,954)</u>	<u>(107,954)</u>	<u>-</u>	<u>-</u>
Total investment return	<u>(65,962)</u>	<u>(65,962)</u>	<u>-</u>	<u>-</u>
Contributions	59,588	-	-	59,588
Investment return designated for current operations	<u>(103,035)</u>	<u>(103,035)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 2,447,442</u>	<u>\$ (168,997)</u>	<u>\$ -</u>	<u>\$ 2,616,439</u>

During 2015, NLM elected to set an allowable expenditure equal to 5% of NLM's endowment value under Pennsylvania state law, Act 141. Each annual allowable expenditure represents an increase or decrease in unrestricted net assets based on overall market gains or losses. As a result, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift value. The allowable expenditure for 2016 and 2015 was \$104,361 and \$103,035, respectively and \$89,089 and \$(168,997) was the gain(loss) on the fund due to market fluctuations in 2016 and 2015, respectively.

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

(9) PROFIT SHARING PLAN

The Organization established a 401(k) profit sharing plan covering all employees with one year of service who have attained age 21. Matching contributions to the plan are discretionary and are funded as accrued. Expenses under this plan were \$9,007 and \$5,554 for the years ended December 31, 2016 and 2015, respectively.

(10) RELATED PARTY TRANSACTIONS

NLM is affiliated with American Interfaith Institute (“*AII*”) as certain directors of NLM also serve as trustees of AII. AII is a not-for-profit organization engaged in the research and study of the causes of racial and religious prejudices, and promotes racial and religious understanding and tolerance.

NLM leases the building owned by AII. The lease agreement provides for annual renewals to the year 2025 at an annual rental of \$1. NLM is required to pay all costs and expenses with regard to the occupied premises, including taxes, if any, insurance, maintenance, repairs and utilities. See Note 2 regarding the recording of donated facilities.

NLM and AII utilize the services of certain common employees. AII reimburses NLM based on an allocation of time spent by NLM employees on behalf of AII. NLM charged AII for payroll and payroll taxes \$4,658 for the year ended December 31, 2015. As of December 31, 2015, the total amount due from AII was \$2,000.

(11) COMMITMENTS

The Organization leases certain office equipment under non-cancelable operating leases. Equipment rental expense was \$20,308 and \$22,218 for the years ended December 31, 2016 and 2015, respectively. Additionally, beginning July 1, 2014, the organization entered into a non-cancelable lease for storage space through June 30, 2022. Total storage rental expense was \$37,774 and \$48,748 for the years ended December 31, 2016 and 2015, respectively. Future minimum annual rent payments are as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2017	\$ 61,772
2018	50,778
2019	45,984
2020	47,391
2021	48,797
Thereafter	<u>127,964</u>
	<u>\$ 382,686</u>

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

(12) SUBSEQUENT EVENTS

Subsequent to year end NLM entered into a line of credit agreement with an institution in the amount of \$5,335,000 in connection with upcoming renovations in the museum. Interest is charged on outstanding balances at the prime rate less 1.00%. The line of credit is payable upon demand and is secured with the investments held in the organization's SEI account.

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, June 6, 2017, have been evaluated in the preparation of the financial statements. Management has determined that there are no subsequent events that require disclosure or adjustment in the financial statements besides the line of credit as noted.