

National Liberty Museum

Financial Statements
Year Ended December 31, 2018



1835 Market Street, 3rd Floor
Philadelphia, PA 19103

215/567-7770 | bbdcpa.com

NATIONAL LIBERTY MUSEUM

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
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, 2018, and the related statements of activities, 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 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 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, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited National Liberty Museum's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the restated audited financial statements from which it has been derived.

BBD 2LP

**Philadelphia, Pennsylvania
May 31, 2019**

NATIONAL LIBERTY MUSEUM

STATEMENT OF FINANCIAL POSITION

December 31, 2018 with comparative totals for 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,599,041	\$ 1,453,703
Prepaid expenses and other	14,635	46,567
Contributions and grants receivable, net	621,952	735,559
Inventory, net	954,094	1,001,828
Investments	13,442,308	15,239,683
Collections	-	-
Property and equipment, net	<u>4,658,752</u>	<u>3,147,988</u>
Total assets	<u>\$ 21,290,782</u>	<u>\$ 21,625,328</u>
LIABILITIES		
Line of credit	\$ 1,723,074	\$ -
Accounts payable and accrued expenses	118,735	498,871
Liability under charitable gift annuities	<u>166,304</u>	<u>173,987</u>
Total liabilities	<u>2,008,113</u>	<u>672,858</u>
NET ASSETS		
Without donor restrictions	15,491,854	17,589,859
With donor restrictions	<u>3,790,815</u>	<u>3,362,611</u>
Total net assets	<u>19,282,669</u>	<u>20,952,470</u>
Total liabilities and net assets	<u>\$ 21,290,782</u>	<u>\$ 21,625,328</u>

See accompanying notes

NATIONAL LIBERTY MUSEUM

STATEMENT OF ACTIVITIES

Year ended December 31, 2018 with comparative totals for 2017

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Totals</u>	
			<u>2018</u>	<u>2017</u>
REVENUE, GAINS AND OTHER SUPPORT				
Contributions and grants	\$ 649,375	\$ 1,217,573	\$ 1,866,948	\$ 1,108,632
Admissions	100,483	-	100,483	113,692
Membership dues	2,920	-	2,920	2,236
Special events, net of expenses of \$388,530 in 2018 and \$496,456 in 2017	400,609	-	400,609	246,847
Gift shop sales, net of cost of sales of \$52,435 in 2018 and \$101,650 in 2017	(636)	-	(636)	134,702
Donated use of facility	396,000	-	396,000	396,000
Other	92,542	-	92,542	82,131
Endowment spending policy distribution	117,550	(117,550)	-	-
Net assets released from restrictions	488,365	(488,365)	-	-
Total revenue, gains and other support	<u>2,247,208</u>	<u>611,658</u>	<u>2,858,866</u>	<u>2,084,240</u>
EXPENSES				
Program activities	2,520,132	-	2,520,132	2,352,703
Management and general	250,400	-	250,400	472,376
Fundraising	518,158	-	518,158	324,269
Total expenses	<u>3,288,690</u>	<u>-</u>	<u>3,288,690</u>	<u>3,149,348</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES				
	<u>(1,041,482)</u>	<u>611,658</u>	<u>(429,824)</u>	<u>(1,065,108)</u>
OTHER CHANGES				
Investment income (loss)	(842,696)	(174,814)	(1,017,510)	2,116,888
Uncollectible pledges	-	(8,640)	(8,640)	(135,100)
Loss on disposal of property and equipment	(187,635)	-	(187,635)	-
Change in value of liability under charitable gift annuities	(26,192)	-	(26,192)	(27,956)
Total other changes	<u>(1,056,523)</u>	<u>(183,454)</u>	<u>(1,239,977)</u>	<u>1,953,832</u>
CHANGE IN NET ASSETS	<u>(2,098,005)</u>	<u>428,204</u>	<u>(1,669,801)</u>	<u>888,724</u>
NET ASSETS				
Beginning of year	<u>17,589,859</u>	<u>3,362,611</u>	<u>20,952,470</u>	<u>20,063,746</u>
End of year	<u>\$ 15,491,854</u>	<u>\$ 3,790,815</u>	<u>\$ 19,282,669</u>	<u>\$ 20,952,470</u>

See accompanying notes

NATIONAL LIBERTY MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2018 with comparative totals for 2017

	Program							Management and General	Fundraising	Totals	
	YHOP	Educational Tours and Workshops	Community Awards Programs	Glass Art Programs	Audience Engagement Programs	Other On-site Programs	Total			2018	2017
	Payroll	\$ 184,985	\$ 151,821	\$ 65,814	\$ 99,973	\$ 126,864	\$ 255,366			\$ 884,823	\$ 99,841
Benefits and payroll taxes	45,028	58,251	16,832	29,058	32,225	40,124	221,518	26,483	78,324	326,325	322,414
Total payroll and payroll related expenses	230,013	210,072	82,646	129,031	159,089	295,490	1,106,341	126,324	399,130	1,631,795	1,683,113
Advertising	-	-	11,500	6	30,870	12,090	54,466	-	-	54,466	33,180
Bad debt expense	-	-	-	-	-	-	-	-	-	-	123,762
Consultants and professional fees	25,823	30,502	5,019	12,660	39,925	63,193	177,122	43,606	63,305	284,033	196,313
Credit card processing fees and dues	-	-	-	18,094	-	-	18,094	-	-	18,094	3,175
Depreciation	533	379	192	272	357	374,841	376,574	1,667	748	378,989	243,503
Dues and fees	-	-	-	-	-	3,075	3,075	-	-	3,075	-
Equipment rental	180	128	65	92	120	16,874	17,459	562	2,282	20,303	16,814
Facility contracts	2,855	2,028	1,028	1,456	1,915	10,062	19,344	8,931	4,005	32,280	22,216
Insurance	1,214	862	437	619	814	30,521	34,467	3,798	1,703	39,968	60,268
Interest	2,952	2,097	1,063	1,506	1,981	10,407	20,006	9,236	4,142	33,384	-
Miscellaneous	3,562	2,530	1,283	1,817	2,389	12,555	24,136	11,143	14,557	49,836	50,808
Occupancy	9,530	6,770	3,431	4,860	6,393	409,790	440,774	29,812	13,369	483,955	482,517
Outreach	20,130	-	-	-	-	-	20,130	-	-	20,130	21,933
Postage	287	82	101	4,645	77	6,934	12,126	360	2,534	15,020	3,380
Printing	43,872	337	1,100	1,672	443	1,588	49,012	-	-	49,012	40,203
Program activities	571	3,606	22,959	6,158	383	7,598	41,275	1,786	801	43,862	89,172
Recruitment	806	573	290	411	541	2,842	5,463	2,522	2,070	10,055	12,451
Supplies	10,167	1,621	1,411	3,378	1,718	32,220	50,515	7,138	3,897	61,550	25,293
Tax expense	655	465	236	334	439	2,307	4,436	2,048	918	7,402	-
Telephone & Internet	335	238	120	171	224	19,198	20,286	1,047	4,509	25,842	17,951
Travel	15,862	95	108	1,173	90	7,703	25,031	420	188	25,639	23,296
Total expenses	\$ 369,347	\$ 262,385	\$ 132,989	\$ 188,355	\$ 247,768	\$ 1,319,288	\$ 2,520,132	\$ 250,400	\$ 518,158	\$ 3,288,690	\$ 3,149,348

See accompanying notes

NATIONAL LIBERTY MUSEUM

STATEMENT OF CASH FLOWS

Year ended December 31, 2018 with comparative totals for 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ (1,669,801)	\$ 888,724
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Depreciation	378,989	243,503
Bad debt expense	-	123,762
Uncollectible pledges	8,640	135,100
Realized and unrealized (gain) loss on investments	1,365,134	(1,875,722)
Loss on disposal of property and equipment	187,635	-
Change in value of liability under charitable gift annuities	26,192	27,956
(Increase) decrease in		
Prepaid expenses and other	31,932	3,214
Contribution and grants receivable	104,967	114,542
Inventory	47,734	153,655
Increase (decrease) in		
Accounts payable and accrued expenses	(380,136)	380,531
Liability under charitable gift annuities	<u>(33,875)</u>	<u>(41,548)</u>
Net cash provided by (used for) operating activities	<u>67,411</u>	<u>153,717</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,077,388)	(946,405)
Proceeds from sale of investments	1,680,674	1,645,778
Purchase of investments	<u>(1,248,433)</u>	<u>(1,144,049)</u>
Net cash provided by (used for) investing activities	<u>(1,645,147)</u>	<u>(444,676)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net advances on line of credit	<u>1,723,074</u>	<u>-</u>
Net change in cash and cash equivalents	145,338	(290,959)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,453,703</u>	<u>1,744,662</u>
End of year	<u>\$ 1,599,041</u>	<u>\$ 1,453,703</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 33,384</u>	<u>\$ -</u>
Unrelated business income taxes paid	<u>\$ 7,402</u>	<u>\$ -</u>

See accompanying notes

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(1) ORGANIZATION

National Liberty Museum ("**NLM**" or the "**Organization**") is a nonprofit organization, located in the heart of historic Philadelphia, whose mission is to bring liberty to life through stories of people whose character and courage have expanded liberty for all in order to educate and inspire visitors to think about liberty as an ongoing human quest. 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.

NLM offers the follow programs to its patrons:

Young Heroes Outreach Program ("YHOP")

In the year long, evidence-based civic leadership program for the 4th-8th graders, NLM's outreach educators work side-by-side with classroom teachers to facilitate NLM's innovative curriculum. In the first half of the school year, participating students learn leadership strategies, their rights and responsibility as citizens and the social skills that will help them succeed in school and in life. After completing our curriculum modules, students activate what they have learned by developing and leading community service projects, with support from NLM's educators. The Young Heroes Outreach Program has been demonstrated to measurably improve students' social-emotional and leadership skills.

Educational Group Tours and Workshops

NLM offers a range of engaging guided tours and extended museum learning experiences involving a tour and hands-on workshop for people of all ages, backgrounds and learning styles. NLM's tour curriculum is standards-aligned and incorporates four themes: (1) Appreciating diversity, (2) Balancing rights with responsibilities, (3) Resolving conflicts respectfully and (4) Learning about heroes of liberty. Educators facilitate an ongoing discussion with small groups of students as they guide them through NLM's eight galleries, where students interact with inspirational stories of liberty heroes and explore how each of us can use our time, talents and resources to keep liberty thriving.

Community Awards Programs

Core to NLM's mission is hosting annual awards programs celebrating "everyday" liberty heroes in the community. NLM currently offers four annual awards programs publicly honoring outstanding citizens from among (1) Youth, (2) Educators, (3) First responders and (4) Healthcare innovators. To date, NLM has recognized thousands of exceptional men, women and young people from every walk of life who have used their time, talents and resources to keep liberty thriving and make a positive impact in the lives of others on a local and global scale.

Glass Art Programs

Contemporary glass art is the primary artistic medium of NLM. Throughout the year, NLM curates temporary exhibits showcasing both new and renowned artists whose art explores NLM's liberty themes in innovative and creative ways. Artists interact with the public through demonstrations, lectures and panel discussions. A variety of activities appeal to all ages and interests, including dance, music and spoken word.

Audience Engagement Programs

NLM amplifies its impact through interactive, digital and social media programs and initiatives that connect NLM to audiences well beyond our four walls. Throughout the year, NLM designs and implements audience engagement programs to extend the reach of its temporary/permanent exhibits, on-site programs and outreach initiatives operating inside schools. These programs enable NLM to serve a wide range of audiences, from museum-goers and tourists visiting our region, to families, educators, students, human resource professionals and those interested in the medium of glass art.

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS

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Other On-site Programs

NLM's onsite programs bring liberty to life with events, activities and enrichment scheduled throughout the year for a wide range of audiences. These programs include evening discussion forums that encourage interactive community dialog on relevant liberty topics; fun and engaging programs for families and kids of all ages; expert lecture series in partnership with leading regional and national organizations; and customized Diversity, Equity & Inclusion training programs for the corporate, non-profit and education sectors.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

NLM reports information regarding its financial position and activities according to the following classes of net assets:

Without donor restrictions

Net assets that are not subject to donor-imposed restrictions.

With donor restrictions

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of NLM and/or the passage of time. When a restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as "***net assets released from restrictions.***"

Also included in this category are net assets that are subject to donor-imposed restrictions that require the net assets be maintained indefinitely while permitting NLM to expend the income generated in accordance with the provisions of the contributions.

Estimates

The presentation of financial statements in conformity with U.S. generally accepted accounting principles ("***GAAP***") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

NLM considers cash in banks, money market funds and highly liquid investments purchased with initial maturities of three months or less to be cash equivalents.

Contributions and grants

Contributions and grants received are recorded as net assets without donor restrictions or with donor restrictions depending on the absence or existence and nature of any donor restrictions. Unconditional contributions and grants are recognized when the related promise to give is received. Conditional contributions and grants are recognized when the conditions are satisfied.

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

Contributions and grants receivable represent unconditional promises received from donors and grantors. Contributions and grants 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 and grants receivable based on its estimate of realization of the underlying contribution. Individual contributions and grants are written off when deemed uncollectible.

Inventory

Inventory consists principally of glass items to be sold at the annual auction and is stated at lower of specifically identified cost or market. An allowance for glass items has been established based on past history. This allowance was \$164,997 and \$174,267 at December 31, 2018 and 2017, 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 and Investment Income

Investments are recorded in the statements of financial position at fair value, as determined based on quoted market prices. Cash equivalents classified as investments are short-term, highly liquid investments with original maturities of three months or more. Realized and unrealized gains and losses are included in the statement of activities.

The Organization invests in a professionally-managed portfolio that contains various types of securities (**See Note 6**). Such investments are exposed to market and credit risks. 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 the near term would materially affect the investment balances and the amounts reported in the financial statements.

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the Organization's own assumptions.

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 lives 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.

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

Collections

The Organization changed its accounting policy in 2017 relating to the capitalization of its collection and has retrospectively applied the new policy. The collections, which were acquired through purchases and contributions since the organization's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired, or as net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

The Organization's collections are primarily glass art that illustrates the connection between freedom and self-expression. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections.

Museum Revenue

Admissions revenue is recognized in the period in which the museum visit took place. Membership fees are recognized ratably over the membership period. Fees for special events are recognized in the period in which the event took place. Membership fees for future periods and fees paid in advance are also included in accounts payable and accrued expenses on the statement of financial position. Gift shop sales are recognized as revenue at the time of the sale.

Donated Facility

As discussed in Note 13, 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, 2018 and 2017.

Advertising

The Organization expenses advertising costs as incurred. Advertising expense was \$54,466 and \$15,180 for the years ended December 31, 2018 and 2017, 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 in each area. 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.

The financial statements have certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include administrative and executive salaries and wages (and related benefits and payroll taxes), insurance, consultants and professional fees, and supplies, which are allocated based on a pro-rata share of the total direct expenses charged to each function.

Income Tax Status

NLM is exempt from federal income tax 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.

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS

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GAAP requires entities to evaluate, measure, recognize and disclose any uncertain tax positions. GAAP prescribes a minimum recognition threshold that a tax position is required to meet in order to be recognized in the financial statements. The Organization believes that it had no uncertain tax positions.

Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentration of credit risk are cash and cash equivalents and contributions and grants receivable. The Organization maintains its cash at various financial institutions. At times, such deposits may exceed federally-insured limits. Contributions and grants receivable is more fully described in Note 4.

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 GAAP. Accordingly, such information should be read in conjunction with NLM's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Accounting Pronouncements Adopted

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and adjusted the presentation in these financial statements accordingly.

(3) LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use past one-year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 1,599,041
Contributions and grants receivable, net	360,898
Investments not encumbered by donor restrictions	10,948,734
Endowment spending-rate distribution and appropriation	<u>117,550</u>
Total financial assets available for general expenditure within one year	<u>\$ 13,026,223</u>

Liquidity Management

The Organization receives significant contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. None of the financial assets are subject to donor restrictions that make them unavailable for general expenditures.

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash, equity securities, and lines of credit. See note 9 for information about the Organization's line of credit.

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

The endowment fund consists of donor-restricted endowment funds. Income from donor-restricted endowments is restricted for specific purposes, with the exception of amounts available for general use. Donor-restricted endowment funds are not available for general use.

(4) CONTRIBUTIONS AND GRANTS RECEIVABLE

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

	<u>2018</u>	<u>2017</u>
Amount due in:		
Less than one year	\$ 360,898	\$ 598,200
One to five years	356,200	212,050
Greater than five years	<u>81,500</u>	<u>79,000</u>
Gross contributions receivable	798,598	889,250
Less present value discount	<u>(76,231)</u>	<u>(53,276)</u>
	722,367	835,974
Less allowance for doubtful accounts	<u>(100,415)</u>	<u>(100,415)</u>
	<u>\$ 621,952</u>	<u>\$ 735,559</u>

(5) INVENTORY

Inventory consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Glass items	\$ 1,099,978	\$ 1,163,008
Gift shop inventory	<u>19,113</u>	<u>13,087</u>
	1,119,091	1,176,095
Less provision	<u>(164,997)</u>	<u>(174,267)</u>
	<u>\$ 954,094</u>	<u>\$ 1,001,828</u>

(6) INVESTMENTS

Investments consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Debt securities:		
Israel bonds	\$ 5,500	\$ 20,500
Mutual funds:		
Equity	8,686,765	10,358,783
Fixed income	4,629,585	4,740,527
Certificates of deposit	<u>120,458</u>	<u>119,873</u>
	<u>\$ 13,442,308</u>	<u>\$ 15,239,683</u>

The above investments include funds held under charitable gift annuity agreements, totaling \$223,246 and \$277,950 at December 31, 2018 and 2017, respectively.

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS

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The fair value of mutual funds, is based upon quoted prices in active markets. These investments have been classified within Level 1 of the valuation hierarchy. Debt securities and certificates of deposit have been classified within Level 2 of the valuation hierarchy.

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

	2018		
	Total	Without Donor Restriction	With Donor Restriction
Interest and dividends, net of fees	\$ 440,806	\$ 366,132	\$ 74,674
Investment management fees	(93,182)	(77,487)	(15,695)
Realized and unrealized gain (loss)	(1,365,134)	(1,131,341)	(233,793)
	<u>\$ (1,017,510)</u>	<u>\$ (842,696)</u>	<u>\$ (174,814)</u>

	2017		
	Total	Without Donor Restriction	With Donor Restriction
Interest and dividends	\$ 333,426	\$ 277,591	\$ 55,835
Investment management fees	(92,260)	(77,253)	(15,007)
Realized and unrealized gain	1,875,722	1,557,653	318,069
	<u>\$ 2,116,888</u>	<u>\$ 1,757,991</u>	<u>\$ 358,897</u>

(7) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2018	2017
Leasehold improvements	\$ 3,430,802	\$ 2,433,747
Gallery exhibits	4,638,273	3,189,436
Construction in progress	-	1,125,732
Furniture, fixtures and equipment	73,371	100,862
	<u>8,142,446</u>	<u>6,849,777</u>
Less accumulated depreciation and amortization	<u>(3,483,694)</u>	<u>(3,701,789)</u>
	<u>\$ 4,658,752</u>	<u>\$ 3,147,988</u>

Depreciation expense amounted to \$378,989 and \$243,503 for the years ended December 31, 2018 and 2017, respectively. Construction in progress included museum renovations which were completed in 2018.

(8) LIABILITY UNDER CHARITABLE GIFT ANNUITIES

The Organization administers various charitable gift annuity contracts, pursuant to which it must make specified annuity payments to the donors or their beneficiaries over their lifetimes. The liability reflected in the accompanying statement of financial position represents the present value of the expected future payments. Payments to the donors or their beneficiaries are recorded as reductions in the liability. Adjustments resulting from amortization of the discounts and changes in life expectancies of the donors or their beneficiaries are recorded as "change in value of liability under charitable gift annuities" in the accompanying statement of activities.

NATIONAL LIBERTY MUSEUM

NOTES TO FINANCIAL STATEMENTS

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(9) LINE OF CREDIT

The Organization has an open line of credit, up to \$5,335,000 with a financial institution. The interest rate is at the Wall Street Journal Prime Rate less 1% (prime rate was 5.5% at December 31, 2018). The credit line is secured by investments. Borrowings under this line of credit as of December 31, 2018 and 2017 were \$1,723,074 and \$0-, respectively.

The Organization has a second open line of credit, up to \$500,000 with a financial institution which renews annually in January. The interest rate is at the Wall Street Journal Prime Rate less 1.15%. There was no outstanding balance on this line of credit at December 31, 2018 and 2017.

Interest expense was \$33,384 and \$0- for the years ended December 31, 2018 and 2017, respectively.

(10) NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes and periods:

	<u>December 31,</u> <u>2017</u>	<u>Additions</u>	<u>Releases</u>	<u>Uncollectible</u> <u>Pledges</u>	<u>December 31,</u> <u>2018</u>
Subject to expenditure for specified purposes					
Use in a future period	\$ 285,973	\$ 428,000	\$(113,665)	\$ (8,640)	\$ 591,668
Healthcare Heroes program	-	400,000	(84,000)	-	316,000
Young Heroes program	<u>290,700</u>	<u>389,573</u>	<u>(290,700)</u>	<u>-</u>	<u>389,573</u>
Total subject to expenditure for specified purposes	<u>576,673</u>	<u>1,217,573</u>	<u>(488,365)</u>	<u>(8,640)</u>	<u>1,297,241</u>
Subject to NLM endowment spending policy and appropriation:					
Donor-restricted endowments	<u>2,785,938</u>	<u>(174,814)</u>	<u>(117,550)</u>	<u>-</u>	<u>2,493,574</u>
Total assets with donor restrictions	<u>\$3,362,611</u>	<u>\$ 1,042,759</u>	<u>\$(605,915)</u>	<u>\$ (8,640)</u>	<u>\$3,790,815</u>

(11) ENDOWMENT FUNDS

Endowment funds represent donor-restricted endowment gifts that are currently invested and participate in the Museum's investment pool. The funds were established to support its general operations.

The Commonwealth of Pennsylvania has not adopted Uniform Prudent management of Institutional Funds Act of 2006 ("**UPMIFA**"). Pennsylvania state law allows nonprofit 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. NLM has 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, 2018 and 2017 was 5% of the three-year average market value of the assets.

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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 net assets with donor restrictions: (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) enhancements or diminishments of the fund after amounts deemed income under Pennsylvania law.

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

	Year ended December 31, 2018		
	Total	Without Donor Restriction	With Donor Restriction
Endowment net assets, beginning of year	\$2,785,938	\$ -	\$2,785,938
Investment return			
Interest and dividends, net of fees	58,979	-	58,979
Net appreciation (depreciation)	(233,793)	-	(233,793)
Total investment return	(174,814)	-	(174,814)
Investment return designated for current operations	(117,550)	-	(117,550)
Endowment net assets, end of year	\$2,493,574	\$ -	\$2,493,574

(12) 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 \$5,363 and \$8,110 for the years ended December 31, 2018 and 2017, respectively.

(13) RELATED PARTY TRANSACTIONS

NLM is affiliated with American Interfaith Institute ("**All**") as certain directors of NLM also serve as trustees of All. All is a nonprofit 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 All. 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.

(14) COMMITMENTS

The Organization leases certain office equipment under non-cancelable operating leases. Equipment rental expense was \$20,303 and \$16,814 for the years ended December 31, 2018 and 2017, respectively. Additionally, beginning July 1, 2014, the Organization entered into a non-cancelable lease for storage space through June 30, 2024. Total storage rental expense was \$37,186 and \$39,165 for the years ended December 31, 2018 and 2017, respectively.

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Future minimum annual rental payments are as follows:

2019	\$ 45,985
2020	47,391
2021	48,797
2022	50,203
2023	51,609
Thereafter	<u>26,156</u>
	<u>\$270,141</u>

(15) SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 31, 2019, the date on which the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2018 that require recognition or disclosure in the financial statements.