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

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Auditor's Report</td>
<td>1-2</td>
</tr>
<tr>
<td><strong>Financial Statements:</strong></td>
<td></td>
</tr>
<tr>
<td>Statement of Financial Position</td>
<td>3</td>
</tr>
<tr>
<td>Statement of Activities</td>
<td>4</td>
</tr>
<tr>
<td>Statement of Cash Flows</td>
<td>5</td>
</tr>
<tr>
<td>Notes to Financial Statements</td>
<td>6-14</td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITOR’S REPORT

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

We have audited the accompanying financial statements of Liberty Memorial Association
d/b/a National World War I Museum [the Museum], a nonprofit organization, which comprise
the statement of financial position as of December 31, 2013, 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 and the standards applicable to financial audits contained in
Government Auditing Standards, issued by the Comptroller General of the United States. 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 National World War I Museum as of December 31, 2013, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 28, 2014 on our consideration of the Museum’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Museum’s internal control over financial reporting and compliance.

Caudle, Ewert & McEwen & Williams

May 28, 2014
LIBERTY MEMORIAL ASSOCIATION
d/b/a NATIONAL WORLD WAR I MUSEUM

STATEMENT OF FINANCIAL POSITION
December 31, 2013

ASSETS

Cash and cash equivalents (Note 5) $358,771
Accounts receivable (Note 5) 47,806
Prepaid expenses 59,959
Inventory 147,026
Unconditional promises to give (Notes 4 and 5) 531,750
Investments (Note 2) 286,276
Restricted for capital purposes (Note 4):
  Cash and cash equivalents 265,007
Restricted for endowment (Note 6):
  Cash and cash equivalents 766
  Investments (Note 2) 2,504,739
Property and equipment, less accumulated
  depreciation (Notes 1 and 3) 5,918,173
Collection of artifacts (Note 1) -

Total assets $10,120,273

LIABILITIES AND NET ASSETS

Liabilities:
Accounts payable and accrued expenses $129,875
Deferred revenues 214,933
Refundable advances (Note 4) 200,000

Total liabilities 544,808

Net assets:
Unrestricted:
  Board-designated endowment 232,815
  Undesignated 6,059,373

Total unrestricted 6,292,188

Temporarily restricted 1,251,168
Permanently restricted 2,032,109

Total net assets 9,575,465

Total liabilities and net assets $10,120,273

See the accompanying notes.
LIBERTY MEMORIAL ASSOCIATION  
d/b/a NATIONAL WORLD WAR I MUSEUM  
STATEMENT OF ACTIVITIES  
For the year ended December 31, 2013

<table>
<thead>
<tr>
<th>Support, revenues, gains and reclassifications:</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions (Note 1)</td>
<td>$ 608,421</td>
<td>$ 645,047</td>
<td>$ -</td>
<td>$ 1,253,468</td>
</tr>
<tr>
<td>Governmental grants (Note 8)</td>
<td>1,201,200</td>
<td>-</td>
<td>-</td>
<td>1,201,200</td>
</tr>
<tr>
<td>Memberships</td>
<td>95,584</td>
<td>-</td>
<td>-</td>
<td>95,584</td>
</tr>
<tr>
<td><strong>Total support</strong></td>
<td><strong>1,905,205</strong></td>
<td><strong>645,047</strong></td>
<td><strong>-</strong></td>
<td><strong>2,550,252</strong></td>
</tr>
<tr>
<td>Admissions, facility use, and other</td>
<td>1,459,701</td>
<td>-</td>
<td>-</td>
<td>1,459,701</td>
</tr>
<tr>
<td>Merchandise and café sales</td>
<td>563,865</td>
<td>-</td>
<td>-</td>
<td>563,865</td>
</tr>
<tr>
<td>Investment return (Note 2)</td>
<td>22,215</td>
<td>257,400</td>
<td>-</td>
<td>279,615</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>2,045,781</strong></td>
<td><strong>257,400</strong></td>
<td><strong>-</strong></td>
<td><strong>2,303,181</strong></td>
</tr>
</tbody>
</table>

Reclassifications:
- Net assets released from restrictions: 573,163

**Total support, revenues, gains and reclassifications** 4,524,149 329,284 - 4,853,433

**Expenses:**

Program services:
- Museum operations: 3,262,532
- Collections management and research: 357,059
- Public programs: 352,157

**Total program services** 3,971,748

Supporting services:
- Management and general: 139,178
- Fundraising and development: 375,741

**Total supporting services** 514,919

Uncollectible promises to give: 60,000

**Total expenses (including depreciation of $375,264)** 4,546,667

Change in net assets before collection purchases: (22,518) 329,284 - 306,766

Collection purchases (Note 1): 24,716

Change in net assets: (47,234) 329,284 - 282,050

**Net assets, beginning of year** 6,339,422 921,884 2,032,109 9,293,415

**Net assets, end of year** $ 6,292,188 $ 1,251,168 $ 2,032,109 $ 9,575,465

See the accompanying notes.
LIBERTY MEMORIAL ASSOCIATION
d/b/a NATIONAL WORLD WAR I MUSEUM

STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

Cash flows from operating activities:
Change in net assets $ 282,050
Adjustments to reconcile change in net assets to net cash used by operating activities:
Depreciation 375,264
Loss on disposition of equipment 2,284
Acquisition of artifacts 24,716
Investment income restricted for long-term purposes (46,899)
Net realized and unrealized gains on investments (221,623)
Uncollectible pledges 60,000
(Increase) decrease in operating assets:
Unconditional promises to give (114,349)
Accounts receivable (10,441)
Prepaid expenses (19,676)
Inventories 51,208
Increase (decrease) in operating liabilities:
Accounts payable and accrued expenses (24,959)
Deferred revenue (36,974)

Net cash provided by operating activities 320,601

Cash flows from investing activities:
Acquisition of property and equipment (181,005)
Acquisition of artifacts (24,716)
Purchase of investments (4,554,693)
Proceeds from the sale of investments 4,577,616

Net cash used by investing activities (182,798)

Increase in cash and cash equivalents 137,803

Cash and cash equivalents, beginning of year 220,968

Cash and cash equivalents, end of year $ 358,771

See the accompanying notes.
1. Organization and Summary of Significant Accounting Policies

Nature of activities

Liberty Memorial Association d/b/a National World War I Museum (the Museum), 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 tower and museum complex (the Memorial) in 1926. The Memorial building and grounds are owned by the City of Kansas City, Missouri (the City), and the museum artifacts are owned by the Museum. The original Memorial was comprised of two 2,550 square foot buildings to house the collection, and the tower. 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 core 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, designated by the United States Congress as the National World War I Museum in 2004, took place on December 2, 2006. The expanded museum houses and displays a significant portion of the Museum’s collection of objects and artifacts. This rich collection has grown from approximately 83,000 artifacts in 2012 to approximately 91,000 in 2013. 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 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, were 120 in 2013 and 85 in 2012.

The Museum and its programs 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 and the sale of merchandise. For financial statement purposes, the Museum’s current programs are as follows:

Museum operations  - reflects the operating expenses of the Memorial (Tower, Exhibit Hall and Memory Hall) and the National World War I Museum.

Collections management and research  - includes the senior curator, registrar, and archivist; as well as the cataloging, preservation, storage, research and exhibition of artifacts and archives, including digitization for on-line viewing of the collection.
1. Organization and Summary of Significant Accounting Policies (continued)

Public programs - for personnel and other costs associated with the Museum’s public and community educational programs, including youth outreach.

Financial statement presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum and related changes 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 the Museum or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

**Permanently restricted net assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Museum.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using an appropriate discount rate applicable to the years in which the promises are to be received.

Investments

Investments are reported at estimated fair value in accordance with generally accepted accounting principles which establish the following three-tier hierarchy to classify fair value measurements for disclosure purposes:

**Level 1** - Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical investments.

**Level 2** - Quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, or from inputs which are observable for the investment or derived from observable market data.

**Level 3** - Investments are valued using prices or valuations that require inputs that are unobservable, including internal assumptions.

Investments consist of common stock, equity and fixed income mutual funds, money market mutual funds, U.S. government and agency securities, and corporate bonds.
1. Organization and Summary of Significant Accounting Policies (continued)

Property and equipment

The Museum facility is owned by the City, and the operating agreement with the City as discussed in Note 7 provides that certain property and equipment acquired by the Museum will become the property of the City. Property and equipment acquisitions by the Museum, including approximately $9.6 million of exhibition space costs incurred as part of the museum expansion project with the City, are reflected at cost in the financial statements and are being depreciated over the shorter of their estimated useful lives or the term of the operating agreement, including renewals.

Donations of property and equipment are recorded as unrestricted support at their estimated fair value unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service by reclassifying temporarily restricted net assets to unrestricted net assets. Depreciation is calculated using the straight-line method over the following estimated useful lives:

<table>
<thead>
<tr>
<th>Asset Description</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibition space and facility improvements</td>
<td>15-30</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>5</td>
</tr>
<tr>
<td>Equipment and furnishings</td>
<td>3-15</td>
</tr>
</tbody>
</table>

Compensated absences

Paid time off is earned based on the length of employment and ranges from 15 to 30 days a year. A maximum of 20 days may be carried over into the following year. Upon resignation, employees will be paid for one-half of the unused paid time off. As of December 31, 2013, the liability for earned but unused paid time off was $27,067 and is included in accrued expenses in the statement of financial position.

Income taxes and accounting for tax positions

The Museum is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3). As a result, contributions to the Museum may qualify as charitable contributions deductible under the Internal Revenue Code.

Generally accepted accounting principles prescribe standards for the recognition, measurement and disclosure of tax positions. For not-for-profit organizations, tax positions include an entity's status as tax exempt, and whether it is subject to tax on unrelated business income. Management does not believe there are any uncertain tax positions that would affect its exempt status or result in any tax on unrelated business income. Accordingly, no tax liability or accrual for any related interest and penalties have been reflected in the financial statements. The tax years that remain subject to examination are 2010 through 2012.

Functional expenses

The Museum presents its expenses on a functional basis by its various programs and supporting services. These expenses are those that can be identified with a specific program or supporting service.

Total fundraising expense for the year ended December 31, 2013 was $456,725.
1. Organization and Summary of Significant Accounting Policies (continued)

Advertising

The costs of advertising are expensed when incurred, and were $181,215 in 2013.

Cash and cash equivalents

The Museum considers all highly liquid investments with an initial maturity of three months or less, other than those restricted for long-term purposes, to be cash equivalents. Cash and cash equivalents consist of:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$338,112</td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>20,659</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$358,771</strong></td>
</tr>
</tbody>
</table>

Donated services

A significant number of individuals contribute their services to the Museum annually as volunteers. The volunteers serve as greeters, docents, educational assistants, research assistants, perform other visitor service functions, and provide administrative support. Volunteer hours were 29,720 and 31,252 in 2013 and 2012, respectively. Although they do not qualify for recording in the financial statements, the value of these services is substantial, and if these services were not provided free of charge, the Museum might have been required to pay for a substantial portion of them.

Concentrations

The Museum receives a significant amount of its support from the City of Kansas City, Missouri, under the contract described in Note 7.

Cash is maintained with various financial institutions. At December 31, 2013, the bank balance exceeded FDIC insurance at one institution by $50,474.

Allowance for uncollectible receivables

Accounts, promises to give and grants receivable are charged off as they are deemed uncollectible based on a periodic review of the accounts.

Deferred revenues

Deferred revenues represent amounts received in advance from facility rentals, programs, and the balance of the City of Kansas City, Missouri operating subsidy applicable to 2014.

Inventory

Inventory consists of merchandise for resale and is carried at the lower of average cost or market value.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
2. Investments

Investments at December 31, 2013 consist of the following in connection with the board-designated, NEH grant, and operating endowments, as well as unrestricted cash equivalents.

The fair value measurements by type and class of investment are as follows:

<table>
<thead>
<tr>
<th>Level 1</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash equivalents:</td>
<td></td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>$20,659</td>
</tr>
<tr>
<td>Investments:</td>
<td></td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>$16,020</td>
</tr>
<tr>
<td>Fixed income mutual funds</td>
<td>121,293</td>
</tr>
<tr>
<td>Equity mutual funds</td>
<td>148,963</td>
</tr>
<tr>
<td>$286,276</td>
<td></td>
</tr>
<tr>
<td>Restricted investments:</td>
<td></td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>$131,573</td>
</tr>
<tr>
<td>Fixed income mutual funds</td>
<td>222,985</td>
</tr>
<tr>
<td>Equity mutual funds</td>
<td>917,328</td>
</tr>
<tr>
<td>Common stock</td>
<td>460,230</td>
</tr>
<tr>
<td>Fixed income securities</td>
<td>772,623</td>
</tr>
<tr>
<td>$2,504,739</td>
<td></td>
</tr>
</tbody>
</table>

The investment return for 2013 is summarized as follows:

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Restricted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends</td>
<td>$11,093</td>
</tr>
<tr>
<td>Net realized gains (losses)</td>
<td>(668)</td>
</tr>
<tr>
<td>Unrealized gains</td>
<td>11,790</td>
</tr>
<tr>
<td>Investment fees</td>
<td>-</td>
</tr>
<tr>
<td>$22,215</td>
<td>$257,400</td>
</tr>
</tbody>
</table>

3. Property and Equipment

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

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibition space</td>
<td>$6,613,149</td>
</tr>
<tr>
<td>Facility improvements</td>
<td>976,421</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>33,012</td>
</tr>
<tr>
<td>Equipment and furnishings</td>
<td>1,107,025</td>
</tr>
<tr>
<td></td>
<td>8,729,607</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>2,811,434</td>
</tr>
<tr>
<td></td>
<td>$5,918,173</td>
</tr>
</tbody>
</table>

Depreciation expense in 2013 totaled $375,254.
4. **Promises to Give and Refundable Advances**

Unconditional promises to give at December 31, 2013 are due as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$345,250</td>
</tr>
<tr>
<td>2015</td>
<td>155,500</td>
</tr>
<tr>
<td>2016</td>
<td>31,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$531,750</strong></td>
</tr>
</tbody>
</table>

Consisting of:
- Gallery capital campaign $66,000
- Collection digitization 125,000
- Lecture 3,000
- Energy conservation 4,000
- Unrestricted 333,750

No allowance for uncollectible promises to give was deemed necessary for 2013 and the discount to present value is not significant. In 2013, it was determined that $60,000 unrestricted promises to give would not be collected.

The Museum has received $320,000 of conditional promises to give in connection with the East Wing Gallery expansion capital campaign which are contingent upon the Museum raising the $2.5 million estimated cost of the improvements; therefore, these promises to give are not reflected in the statement of financial position.

Refundable advances at December 31, 2013 consist of $200,000 of contingent capital campaign donations received for the East Wing Gallery expansion, and are reflected in cash restricted for capital purposes, along with $65,007 of unspent donations for this purpose.

5. **Bank Line of Credit**

The Museum has a $500,000 line of credit that matures April 30, 2014. The line bears interest at .5% over the bank's index rate and is collateralized by accounts receivable, unrestricted pledges, general intangibles and unrestricted deposit accounts. There were no borrowings on the line in 2013.

6. **Restricted Net Assets**

**Temporarily restricted**

Temporarily restricted net assets are available for the following purposes or periods:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount (in $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artifact acquisition</td>
<td>65,889</td>
</tr>
<tr>
<td>Education center furnishings</td>
<td>27,034</td>
</tr>
<tr>
<td>Distance learning program</td>
<td>19,613</td>
</tr>
<tr>
<td>Collection digitization</td>
<td>176,344</td>
</tr>
<tr>
<td>Gallery expansion</td>
<td>164,600</td>
</tr>
<tr>
<td>Educational, lecture and other</td>
<td>613,938</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>183,750</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,251,168</strong></td>
</tr>
</tbody>
</table>
6. **Restricted Net Assets (continued)**

It is the Museum's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational, lecture and other programs</td>
<td>$185,061</td>
</tr>
<tr>
<td>Collection digitization</td>
<td>102,026</td>
</tr>
<tr>
<td>Artifact acquisition</td>
<td>27,584</td>
</tr>
<tr>
<td>Distance learning program</td>
<td>28,441</td>
</tr>
<tr>
<td>Gallery expansion</td>
<td>35,400</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>194,651</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$573,163</strong></td>
</tr>
</tbody>
</table>

In 2013, $378,401 of unrestricted promises to give in future periods were reclassified from unrestricted to temporarily restricted net assets.

**Permanently restricted**

The Museum's endowment consists of donor-restricted and board-designated funds. In accordance with generally accepted accounting principles, these funds are classified based on the existence or absence of donor imposed restrictions. Investment returns not required to be treated as permanently restricted by the donor are reflected in temporarily restricted net assets until appropriated for spending in accordance with the investment policy adopted by the Board of Trustees.

The State of Missouri has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which supersedes the previously adopted Uniform Management of Institutional Funds Act. This state law 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 provisions 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.

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 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, 2013.

Permanently restricted net assets include 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.
6. **Restricted Net Assets (continued)**

In connection with the start of its Centennial Campaign, the Museum intends to create three endowed funds to partially support the cost of future artifact acquisitions, public education and programs, and the operations of the Museum. As of December 31, 2013, $500 of contributions have been received for the operations endowment fund.

Unrestricted net assets consist of a board-designated endowment fund established in 2009 to provide resources to support the Museum's operations.

The changes and composition of the endowment net assets for the year are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>$ 236,251</td>
<td>$ 332,156</td>
<td>$ 2,032,109</td>
<td>$ 2,600,516</td>
</tr>
<tr>
<td>Investment income</td>
<td>7,999</td>
<td>46,899</td>
<td>-</td>
<td>54,898</td>
</tr>
<tr>
<td>Realized gains</td>
<td>7</td>
<td>24,506</td>
<td>-</td>
<td>24,513</td>
</tr>
<tr>
<td>Unrealized gains</td>
<td>9,210</td>
<td>185,995</td>
<td>-</td>
<td>195,205</td>
</tr>
<tr>
<td>Appropriated for spending</td>
<td>(20,652)</td>
<td>(116,080)</td>
<td>-</td>
<td>(136,732)</td>
</tr>
<tr>
<td>End of year</td>
<td>$ 232,815</td>
<td>$ 473,476</td>
<td>$ 2,032,109</td>
<td>$ 2,738,400</td>
</tr>
</tbody>
</table>

The Museum has adopted investment and spending policies for endowment 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.

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 allocation for the NEH endowment is 55% money market and fixed income investments and 45% equities; and the current allocation for designated and other endowment funds is 45% money market and fixed income funds and 55% equity funds, which are within the specified ranges of the current investment policy.

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

7. **Agreement with the City of Kansas City, Missouri**

On January 20, 2004, the Museum entered into an agreement with the City to manage the Memorial and operate the Museum, as well as to provide for maintenance and security. The agreement was effective February 1, 2004 and was to continue through December 31, 2013. Effective August 25, 2012, the agreement was amended to extend the term through July 31, 2032, and 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 the previous agreement all property and equipment, even if acquired by the Museum, was considered to be owned by the City.
7. Agreement with the City of Kansas City, Missouri (continued)

The management and operating portion of the agreement is intended to provide the Museum with $625,000 annually, subject to appropriation from the City's general fund, net of certain costs paid for by the City, and is to be used for the period May 1 to April 30 each year. The amount appropriated in 2013 was $625,000. The portion of the payment received that pertains to 2014 is reflected in deferred revenues.

The maintenance and security portion provides for the payment to the Museum of an amount equal to 90% of the earnings from an endowment established by the City for this purpose. This percentage will decrease to 45% for the City's fiscal years 2015 to 2019.

The endowment had an initial balance of $15.7 million when created in 2000 and is approximately $12 million at December 31, 2013. Any amounts received in excess of actual expenses are to be returned to the City. Through December 31, 2013, the Museum has recognized $215,190 received from the City as revenues and incurred $1,945,457 in expenses under this agreement.

8. Grants from Governmental Agencies

The Museum has entered into various grants and reimbursement arrangements for project costs and services it provides under its programs. Included in accounts receivable at December 31, 2013 are $27,576 of reimbursements due under these programs. The amounts earned in 2013 are as follows:

<table>
<thead>
<tr>
<th>Grant Description</th>
<th>Earned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kansas City operating subsidy</td>
<td>$625,000</td>
</tr>
<tr>
<td>Kansas City maintenance subsidy</td>
<td>215,190</td>
</tr>
<tr>
<td>Kansas City tourism grants</td>
<td>49,752</td>
</tr>
<tr>
<td>Kansas City facility upgrade grants</td>
<td>108,133</td>
</tr>
<tr>
<td>Kansas City technology upgrade grants</td>
<td>103,875</td>
</tr>
<tr>
<td>Missouri Arts Council Centennial grant</td>
<td>99,250</td>
</tr>
</tbody>
</table>

**Total** $1,201,200

9. Retirement Plan

The Museum has established a 401(k) salary reduction retirement plan which covers those employees who work at least 1,000 hours a year. The Museum will match 100% of employee contributions up to 3% of their compensation, and 50% of the next 2% of compensation, up to a maximum of 4%. The matching contributions to the plan were $33,360.

10. Contingencies

The Museum is subject to various legal actions and claims arising in the normal course of its activities. In the opinion of management and counsel, there are no claims which would result in any material aggregate liabilities.

11. Subsequent Events

The Museum has evaluated subsequent events through May 28, 2014, the date that the financial statements were authorized to be issued.