

USS CONSTITUTION MUSEUM, INC.

Financial Statements

March 31, 2020 and 2019

USS CONSTITUTION MUSEUM, INC.

March 31, 2020 and 2019

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Independent Auditor's Report

To the Board of Trustees of
USS Constitution Museum, Inc.
Charlestown, Massachusetts

We have audited the accompanying financial statements of the USS Constitution Museum, Inc., (a nonprofit organization), which comprise the statements of financial position as of March 31, 2020 and 2019, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the USS Constitution Museum, Inc., as of March 31, 2020 and 2019, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Edelstein & Company LLP

Boston, Massachusetts
February 12, 2021

USS CONSTITUTION MUSEUM, INC.

Statements of Financial Position March 31,

	2020	2019
Assets		
Cash	\$ 586,154	\$ 416,921
Accounts receivable	7,686	23,196
Grants receivable	128,909	129,933
Pledges receivable	20,517	6,150
Inventory	79,280	85,508
Prepaid expenses	20,193	31,506
Deposit	247,876	247,876
Trust residuary	361,000	323,000
Investments	6,432,370	7,397,448
Leasehold improvements, exhibits, and equipment, net	1,154,048	1,229,199
Intangible assets, net	142,050	87,750
Total assets	\$ 9,180,083	\$ 9,978,487
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 26,703	\$ 57,154
Accrued expenses	180,808	188,733
Other liabilities	8,936	3,081
Annuity payable	117,936	122,689
Total liabilities	334,383	371,657
Net assets		
Without donor restrictions	2,175,135	2,412,350
With donor restrictions	6,670,565	7,194,480
Total net assets	8,845,700	9,606,830
Total liabilities and net assets	\$ 9,180,083	\$ 9,978,487

USS CONSTITUTION MUSEUM, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended March 31,

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenues:						
Contributions	\$ 630,391	\$ 115,292	\$ 745,683	\$ 574,916	\$ 19,375	\$ 594,291
Appeals	158,048	15,566	173,614	125,100	12,056	137,156
Special events	650,039	-	650,039	366,444	-	366,444
Government grants	262,998	-	262,998	301,951	-	301,951
In-kind support	114,966	-	114,966	90,702	-	90,702
Membership dues	50,445	-	50,445	59,072	-	59,072
Admission fees	751,144	-	751,144	756,279	-	756,279
Museum store revenue	280,359	-	280,359	344,730	-	344,730
Other	57,358	-	57,358	40,867	-	40,867
Net assets released from restrictions	197,462	(197,462)	-	871,214	(871,214)	-
Income from spending policy	395,940	(395,940)	-	288,042	(288,042)	-
Total operating support and revenues	3,549,150	(462,544)	3,086,606	3,819,317	(1,127,825)	2,691,492
Operating expenses:						
Program services	2,293,251	-	2,293,251	2,443,803	-	2,443,803
Administration	412,749	-	412,749	334,297	-	334,297
Fundraising	319,193	-	319,193	231,531	-	231,531
Costs of direct benefits to donors	247,689	-	247,689	147,710	-	147,710
Total operating expenses	3,272,882	-	3,272,882	3,157,341	-	3,157,341
Change in net assets from operating activities	276,268	(462,544)	(186,276)	661,976	(1,127,825)	(465,849)
Nonoperating activities:						
Net investment return	(412,058)	(188,480)	(600,538)	77,614	311,443	389,057
Annuity liability revaluation adjustment	(101,425)	89,109	(12,316)	-	(12,297)	(12,297)
Unrealized gain on trust residuary	-	38,000	38,000	-	27,000	27,000
Loss on disposal of fixed assets	-	-	-	(17,166)	-	(17,166)
Change in net assets from nonoperating activities	(513,483)	(61,371)	(574,854)	60,448	326,146	386,594
Change in net assets	(237,215)	(523,915)	(761,130)	722,424	(801,679)	(79,255)
Net assets, beginning of year	2,412,350	7,194,480	9,606,830	1,689,926	7,996,159	9,686,085
Net assets, end of year	<u>\$ 2,175,135</u>	<u>\$ 6,670,565</u>	<u>\$ 8,845,700</u>	<u>\$ 2,412,350</u>	<u>\$ 7,194,480</u>	<u>\$ 9,606,830</u>

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

USS CONSTITUTION MUSEUM, INC.

Statements of Cash Flows

For the Years Ended March 31,

2020

2019

Cash flows from operating activities:

Change in net assets	\$ (761,130)	\$ (79,255)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net unrealized and realized losses (gains) on investments	734,078	(201,501)
Unrealized gain on trust residuary	(38,000)	(27,000)
Depreciation and amortization	142,834	153,339
Loss on disposal of fixed assets	-	17,166
Annuity liability revaluation adjustment	12,316	12,297
Changes in operating assets and liabilities:		
Accounts receivable	15,510	71,127
Grants receivable	1,024	29,457
Pledges receivable	(14,367)	19,550
Inventory	6,228	(36,803)
Prepaid expenses	11,313	(5,292)
Accounts payable	(30,451)	(114,957)
Accrued expenses	(7,925)	(24,252)
Other liabilities	5,855	(8,088)
Net cash provided by (used in) operating activities	<u>77,285</u>	<u>(194,212)</u>

Cash flows from investing activities:

Purchase of leasehold improvements and equipment	(50,233)	(67,427)
Purchase of intangible assets	(71,750)	(15,250)
Proceeds from sale of investments	1,868,235	1,354,243
Purchase of investments	(1,637,235)	(932,352)
Payment for deposit	-	(247,876)
Net cash provided by investing activities	<u>109,017</u>	<u>91,338</u>

Cash flows used in financing activities:

Payments on annuities	(17,069)	(17,069)
Net increase (decrease) in cash	169,233	(119,943)
Cash, beginning of year	<u>416,921</u>	<u>536,864</u>
Cash, end of year	<u>\$ 586,154</u>	<u>\$ 416,921</u>

USS CONSTITUTION MUSEUM, INC.

Statement of Functional Expenses
For the Year Ended March 31, 2020

	Curatorial	Education/ Interpretation Services	Retail Operations	Marketing	Exhibits	Total Program Services	Administration	Fundraising	Costs of Direct Benefits to Donors	Total
Salaries	\$ 214,497	\$ 660,146	\$ 33,501	\$ 45,077	\$ 265,114	\$ 1,218,335	\$ 227,558	\$ 202,586	\$ 1,266	\$ 1,649,745
Occupancy	25,199	88,089	43,419	691	107,864	265,262	11,354	2,978	-	279,594
Catering/dining	-	-	-	-	-	-	-	7,695	199,633	207,328
Professional fees	1,313	69,133	-	38	3,026	73,510	104,181	1,023	15,379	194,093
Benefits	30,153	65,349	3,492	269	45,415	144,678	23,716	17,506	-	185,900
Depreciation and amortization	53,269	27,929	455	-	60,457	142,110	-	724	-	142,834
Payroll taxes	17,723	55,340	2,527	4,232	19,899	99,721	17,163	18,948	-	135,832
Adversting and public relations	-	44,426	-	18,137	-	62,563	4	2,128	-	64,695
Office equipment	8,064	11,596	-	3,124	4,778	27,562	6,242	21,934	-	55,738
Insurance	12,173	29,110	2,646	1,059	5,293	50,281	1,588	1,059	-	52,928
Cost of goods sold	-	-	42,647	-	-	42,647	-	-	-	42,647
Cultivation	1,024	2,725	-	-	-	3,749	-	13,305	16,742	33,796
Exhibits	-	-	-	-	31,891	31,891	-	-	-	31,891
Printing	439	18,026	-	3,964	215	22,644	238	3,884	4,706	31,472
Program and workshops	-	26,118	-	-	-	26,118	-	-	-	26,118
Miscellaneous	1,290	4,764	-	196	6,132	12,382	2,637	3,667	4,409	23,095
Bank charges	-	3,327	-	-	-	3,327	4,793	11,646	20	19,786
Travel	1,724	8,801	-	32	2,441	12,998	3,548	1,772	1,388	19,706
Collections	15,487	-	-	-	-	15,487	-	-	-	15,487
Membership dues and subscriptions	935	5,410	-	225	-	6,570	4,477	3,130	-	14,177
Office supplies	702	6,372	49	112	1,952	9,187	2,475	875	742	13,279
Conservation	11,565	-	-	-	-	11,565	-	-	-	11,565
Postage and shipping	1,871	742	-	107	-	2,720	478	3,164	3,160	9,522
Meals	654	2,221	-	-	1,106	3,981	2,297	1,169	244	7,691
Website	3,963	-	-	-	-	3,963	-	-	-	3,963
Total functional expenses	\$ 402,045	\$ 1,129,624	\$ 128,736	\$ 77,263	\$ 555,583	\$ 2,293,251	\$ 412,749	\$ 319,193	\$ 247,689	\$ 3,272,882

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

USS CONSTITUTION MUSEUM, INC.

Statement of Functional Expenses
For the Year Ended March 31, 2019

	Curatorial	Education/ Interpretation Services	Retail Operations	Marketing	Exhibits	Total Program Services	Administration	Fundraising	Costs of Direct Benefits to Donors	Total
Salaries	\$ 198,999	\$ 636,610	\$ 59,323	\$ 23,468	\$ 276,825	\$ 1,195,225	\$ 171,094	\$ 116,665	\$ 68	\$ 1,483,052
Occupancy	30,452	106,128	42,286	96	151,418	330,380	13,004	2,659	-	346,043
Professional fees	2,335	82,030	428	38	54,029	138,860	88,542	48,576	4,136	280,114
Benefits	34,251	55,331	7,092	2,273	48,565	147,512	19,615	10,669	-	177,796
Depreciation and amortization	78,005	15,272	1,178	-	58,023	152,478	-	861	-	153,339
Catering/dining	-	-	-	-	-	-	-	9,425	116,306	125,731
Payroll taxes	15,698	54,915	4,392	2,041	21,564	98,610	12,948	9,390	-	120,948
Adversting and public relations	-	56,370	-	22,951	-	79,321	1,999	-	3,200	84,520
Cost of goods sold	-	-	65,127	-	-	65,127	-	-	-	65,127
Program and workshops	-	52,614	-	-	-	52,614	-	-	-	52,614
Insurance	11,878	28,404	2,582	1,033	5,165	49,062	1,549	1,033	-	51,644
Office equipment	7,180	9,974	44	1,176	4,647	23,021	5,891	12,944	-	41,856
Office supplies	704	13,269	382	260	1,390	16,005	5,570	1,504	341	23,420
Printing	316	2,593	-	11,944	-	14,853	-	3,117	3,778	21,748
Cultivation	-	2,500	536	-	-	3,036	-	4,154	14,346	21,536
Miscellaneous	1,544	6,660	-	86	9,581	17,871	2,422	302	314	20,909
Bank charges	-	8,520	-	-	-	8,520	4,547	2,578	-	15,645
Postage and shipping	1,059	3,067	-	975	110	5,211	773	4,425	4,293	14,702
Membership dues and subscriptions	738	4,460	-	-	-	5,198	3,713	2,192	-	11,103
Conservation	11,049	-	-	-	-	11,049	-	-	-	11,049
Collections	9,390	-	-	-	-	9,390	-	-	-	9,390
Travel	804	5,094	-	39	-	5,937	816	797	636	8,186
Exhibits	-	-	-	-	7,807	7,807	-	-	-	7,807
Meals	652	2,732	-	140	-	3,524	1,814	240	292	5,870
Website	2,962	230	-	-	-	3,192	-	-	-	3,192
Total functional expenses	\$ 408,016	\$ 1,146,773	\$ 183,370	\$ 66,520	\$ 639,124	\$ 2,443,803	\$ 334,297	\$ 231,531	\$ 147,710	\$ 3,157,341

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

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

1. Museum Purpose

The USS Constitution Museum (the “Museum”) serves as the memory and educational voice of USS Constitution (“Constitution”), by engaging all ages in the story of “Old Ironsides” to spark excitement about maritime heritage, naval service, and the American experience. The Museum seeks to create a positive, memorable experience for both children and adults by inspiring within them a love for the freedom that Constitution symbolizes. The Museum will share Constitution’s contributions with a global audience, and it will strive to be the best museum possible based on scholarship and innovative ways of sharing Constitution’s stories.

During the year ended March 31, 2020, the USS Constitution Museum welcomed over 312,000 visitors who explored the galleries and participated in hands-on activities. The Museum also continued its successful “All Aboard” initiative integrating hands-on student and family programming in the Museum with experiences onboard “Old Ironsides.” With support from Liberty Mutual Insurance, the Museum offers free visits and transportation for Boston Public School students. The Museum also prototyped several new sensory friendly initiatives for visitors with autism spectrum disorders. The Museum launched a new website placing Constitution in the context of the Charlestown Navy Yard with additional information about what visitors can do and see in the Navy Yard. The website also provides enhanced access to the Museum’s research and collections through the “Discover + Learn” section. Virtual visitors can now access profiles on Constitution’s War of 1812 crew, charts of the wartime cruises, excerpts from the Ship’s logs and the new 1812 digital collections portal. The Museum installed a new temporary exhibit, “Today’s Crew: USS Constitution,” that introduces visitors to the present-day crew sailors on “Old Ironsides” through a combination of images, quotations, and video interviews. In February 2020, the Museum hosted the 41st annual “Masters of Miniature Model Ship Show” in partnership with the USS Constitution Model Shipwright Guild featuring 45 ship models. The Museum turned itself inside-out, installing large graphics outdoors overlooking our waterfront patio. This community gathering space includes picnic tables, flower planters, and great views, offering a welcome respite for neighbors and guests. The project extended past the courtyard, with “telescopes to the past” and banners interpreting the history and evolution of the Navy Yard. In 2019, the Museum received Certificates of Excellence from TripAdvisor (based on outstanding reviews from our visitors) and Charity Navigator awarded its highest 4-star rating for the 7th consecutive year. In March 2020, the American Alliance of Museums re-accredited the USS Constitution Museum, demonstrating that the Museum meets or exceeds the standards and best practices of the museum field.

2. Summary of Significant Accounting Policies

Basis of Presentation

In order to ensure the observance of limitations and restrictions placed on the use of resources available to the Museum, the Museum determines the classification of its net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Museum. These net assets may be used at the discretion of the Museum’s management and the Board of Trustees.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature. Those restrictions will be met by actions of the Museum or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Income on these invested endowment funds are utilized in accordance with the donors' stipulations.

Cash

Cash consists of checking account deposits, cash on hand, and a money market account.

Fair Value Measurements

The Museum values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 - Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to *Level 1* inputs.

Level 2 - Observable inputs other than *Level 1* inputs such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with market data.

Level 3 - Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to *Level 3* inputs.

In determining fair value, the Museum utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

Revenue and Support

Contributions and appeals consist of unconditional, non-reciprocal support that are recorded as support without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor-imposed restrictions. Contributions and appeals that are classified as with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the restriction or expiration of the time restriction.

Grants and pledges receivable that are expected to be collected within one year are reported at net realizable value. Grants and pledge receivable that are expected to be collected in future years are reported at fair value, which is measured as the net present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the pledges are received. Amortization of the discounts is included in contributions revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The Museum conducts special events, including the Chairman's Dinner. Related expenses of the special events are presented as costs of direct benefits to donors on the statements of activities and changes in net assets.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Revenue and Support (continued)

Under the terms of cost reimbursement agreements with government agencies, government grant revenues are recognized as expenses are incurred. Government grants received from competitive grant programs help fund specific projects. As of March 31, 2020 and 2019, approximately \$221,000 and \$433,000, respectively, in government grants are available to be drawn down upon once the associated expenses have been incurred.

The Museum receives various types of in-kind support in the form of contributed services and other assets. Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of marketable securities and other tangible assets are recognized at fair value when received.

A substantial number of unpaid volunteers have also made significant contributions of time (totaling 1,925 hours and 1,571 hours for the years ended March 31, 2020 and 2019, respectively) to work on the Museum's various programs. The value of this contributed time has not been reflected in these financial statements since it does not meet the criteria described above.

Membership dues represent fees paid by members in exchange for benefits that include admission to the Museum, a newsletter, periodic program updates, and discounts to the Museum store and special events. The value of these benefits is deemed to be de minimis and therefore, membership dues are recognized as nonexchange transactions and are recognized as revenue in the year received. Admission fees represent group reservations and program fees paid for access to the Museum as well as donation box proceeds received from visitors.

The Museum has a contract with Event Network to outsource the operation of the Museum's gift shop. Under this agreement, the Museum receives a percentage of gift shop sales proceeds based on a sliding scale. The Museum continues to stock a limited amount of inventory on hand at the Museum, which it sells to Event Network as a wholesale distributor. Museum store revenue represents revenue earned under the above agreement and sales of inventory as a wholesaler to Event Network.

Realized and unrealized gains and losses on investments, and dividends and interest net of investment expenses are recorded as revenue and support of net assets without donor restrictions unless the income and gains and losses are restricted by donor or law.

Inventory

Inventory is stated at the lower of cost (average cost) or net realizable value.

Artifacts

The Museum maintains a collection of historic artifacts for public exhibition and education in furtherance of public service and not for financial gain. The Museum expenses items obtained for its collections. In the rare event of a sale of deaccessioned artifacts, the proceeds are used exclusively to acquire other artifacts for the collection.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Leasehold Improvements, Exhibits and Equipment

Leasehold improvements, exhibits and equipment are stated at cost, net of accumulated depreciation and amortization. Expenditures for maintenance and repairs are charged to expense when incurred, whereas major additions in excess of \$1,000 are capitalized. Depreciation and amortization is computed over the estimated useful lives of the assets using the straight-line method as follows:

Leasehold improvements	20 years
Exhibits	5 years
Furniture and equipment	5 to 8 years
Library and vault	20 years

The cost of exhibits includes expenditures for payroll of staff directly involved with exhibit development, consultants, and design services. Upon completion, the project cost is reclassified to a fixed asset account and depreciated.

Intangible Assets

Intangible assets consist of website development costs which are being amortized on a straight-line basis over five years.

Functional Allocation of Expenses

The Museum allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are recorded directly according to their natural expenditure classification. The financial statements report certain categories of expenses that are attributed to both program and support services. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries, benefits and payroll taxes	Time and effort
Professional fees	Time and effort
Insurance	Square footage
Advertising and public relations	Associated activity
Membership dues and subscriptions	Associated activity
Printing	Associated activity
Meals	Associated activity
Cultivation	Associated activity
Miscellaneous	Associated activity
Travel	Associated activity
Depreciation	Asset use
Occupancy	Associated activity
Office supplies	Associated activity
Office equipment	Associated activity
Postage and shipping	Associated activity

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Use of Estimates and Subsequent Events

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

The Museum's management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on February 12, 2021, the date these financial statements became available to be issued.

Income Taxes

The Museum operates as a tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from federal income taxes on related income. The Museum is also exempt from taxes under Massachusetts General Law Chapter 180.

The Museum is subject to tax on income generated from merchandise sales that are unrelated to its exempt purpose. Unrelated business income tax expense was \$7,203 and \$5,500 for the years ended March 31, 2020 and 2019, respectively.

Recently Adopted Accounting Pronouncement

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a contract or agreement is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU has different effective dates for resource recipients and resource providers. The Museum is not a resource provider as it does not make contributions. As a resource recipient, the ASU is applicable to contributions and grants received for year ended March 31, 2020, and the Museum has applied the ASU on a modified prospective basis. The adoption of this ASU did not have a material impact on changes in net assets, financial position or cash flows.

Accounting Pronouncement Issued and Not Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which amends the existing accounting standards for revenue recognition. This new revenue standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Museum has elected to defer the implementation of this ASU until the year ending March 31, 2021 and is currently in the process of evaluating the impact of adoption on its financial statements.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts from the prior year have been reclassified on these financial statements in order to conform to the current year presentation. The reclassifications did not have an impact on previously reported change in net assets.

3. In-Kind Support

The Museum received in-kind goods and services during the years ended March 31, 2020 and 2019 as follows:

	<u>2020</u>	<u>2019</u>
Construction and architectural	\$ 47,251	\$ -
Administrative consulting	-	50,625
Utilities	32,954	-
Auction items	13,220	14,069
Program advertising	12,301	26,008
Gifts for fundraising	9,240	-
	<u>\$ 114,966</u>	<u>\$ 90,702</u>

4. Leasehold Improvements, Exhibits and Equipment

Leasehold improvements, exhibits and equipment consisted of the following at March 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 2,501,339	\$ 2,472,373
Exhibits	1,041,842	1,041,842
Furniture and equipment	220,128	198,861
Library and vault	998,820	998,820
	<u>4,762,129</u>	<u>4,711,896</u>
Less - accumulated depreciation and amortization	<u>(3,608,081)</u>	<u>(3,482,697)</u>
	<u>\$ 1,154,048</u>	<u>\$ 1,229,199</u>

During the year ended March 31, 2019, the Museum disposed of leasehold improvements having a cost basis of approximately \$146,000 which management deemed were no longer in use. Accordingly, a loss of \$17,166 was recognized during the year ended March 31, 2019. No disposals took place during the year ended March 31, 2020.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

5. Deposit

During the year ended March 31, 2019, the Museum paid a deposit of \$247,876 relating to an HVAC project that is expected to begin during the year ended March 31, 2021.

6. Intangible Assets

Intangible assets consisted of the following at March 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Website development costs	\$ 159,500	\$ 87,750
Less - accumulated amortization	<u>(17,450)</u>	<u>-</u>
	<u>\$ 142,050</u>	<u>\$ 87,750</u>

Amortization of the website development costs for each of the following five years is as follows:

Year ending March 31,	<u>Amount</u>
2021	\$ 31,800
2022	31,800
2023	31,800
2024	31,800
2025	14,850

7. Receivables

Accounts, grants and pledges receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and a corresponding reserve based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to the receivable. As of March 31, 2020 and 2019, no allowance for bad debts was deemed necessary.

Grants and pledges receivable at March 31, 2020 and 2019 are due within one year and are recorded at their net realizable value.

At March 31, 2020 and 2019, the Museum had a conditional grant of \$200,000 to fund capital improvements which will not be recognized as an asset in the statement of financial position or as revenue in the statement of activities and changes in net assets until such time as the conditions of the grant are met.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

8. Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table is a summary of the fair value hierarchy for the Museum's investments measured at fair value as of March 31, 2020 and 2019:

	2020		2019	
	Level 1	Level 2	Level 1	Level 2
Money market funds	\$ 213,178	\$ -	\$ 83,900	\$ -
Government bonds	637,151	-	718,567	-
Corporate bonds	-	722,804	-	599,385
Agency bonds	-	4,564	-	105,256
<u>Common stock:</u>				
Financial services	1,128,537	-	1,377,871	-
Information technology	564,012	-	541,272	-
Healthcare	294,852	-	339,970	-
Consumer discretionary	221,137	-	213,776	-
Communication services	214,633	-	228,516	-
Industrials	199,973	-	229,552	-
Consumer staples	172,415	-	199,843	-
Utilities	117,382	-	76,422	-
Real estate	43,320	-	51,200	-
Materials	41,533	-	94,552	-
Energy	-	-	140,049	-
<u>Mutual funds:</u>				
Domestic equity	1,220,503	-	1,708,664	-
Foreign equity	426,233	-	463,274	-
Fixed income	210,143	-	225,379	-
	<u>\$ 5,705,002</u>	<u>\$ 727,368</u>	<u>\$ 6,692,807</u>	<u>\$ 704,641</u>

The carrying amounts of money market funds approximate fair value because of the short-term nature of the items. Government bonds and common stock are valued at the closing price on the active market in which they are traded. Agency bonds and corporate bonds are valued at the closing bid price on the last business day of the fiscal year, if actively traded. Investments in mutual funds are reported at their published net asset values.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

9. Availability and Liquidity

The Museum's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date at March 31, 2020 and 2019, are comprised of the following:

	2020	2019
Cash	\$ 473,512	\$ 329,339
Accounts receivable	7,686	23,196
Grants receivable	128,909	129,933
Pledges receivable	20,517	6,150
Amounts appropriated from spending policy for general operations	300,551	395,933
Financial assets available to meet general expenditures within the next year	<u>\$ 931,175</u>	<u>\$ 884,551</u>

For purposes of analyzing resources available to meet general expenditures within one year, the Museum considers all expenditures related to its ongoing programs, as well as the conduct of services undertaken to support those programs to be general expenditures. As part of the Museum's liquidity plan, excess cash is invested in money market accounts.

10. Endowment

The Museum's endowment consists of five funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Museum and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Museum
- (7) The investment policies of the Museum.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

10. Endowment (continued)

The Museum has adopted investment and spending policies, approved by the Board of Trustees, that attempt to provide a steady stream of funding to programs supported by its endowment while also seeking to maintain the purchasing power of the endowment assets. Investments are managed by an outside investment manager and held by an independent outside custodian under the direction and oversight of the Board of Trustees. The Board of Trustees determines the asset allocation formula and places limitations on the types of investments the managers may purchase. The spending policy provides for annual endowment spending between 3.5% and 5.5% of the average market value of endowment assets over the previous twelve quarters.

The following schedules summarize endowment related activity for the years ended March 31, 2020 and 2019:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Balance at beginning of year	\$ 379,185	\$ 7,018,263	\$ 7,397,448
Investment return:			
Interest and dividends	-	139,633	139,633
Realized and unrealized losses (net)	(46,600)	(294,719)	(341,319)
Investment expenses	-	(33,394)	(33,394)
Total investment return	(46,600)	(188,480)	(235,080)
Contributions	-	20,861	20,861
Transfers in	-	54,909	54,909
Transfer out of endowment	-	(544,587)	(544,587)
Annuity revaluations	-	(36,003)	(36,003)
Amounts appropriated for spending policy/cash	-	(395,940)	(395,940)
Payments on annuities	-	(17,069)	(17,069)
Balance at end of year	\$ 332,585	\$ 5,911,954	\$ 6,244,539

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

10. Endowment (continued)

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Balance at beginning of year	\$ 327,278	\$ 7,290,560	\$ 7,617,838
Investment return:			
Interest and dividends	-	197,665	197,665
Realized and unrealized gains (net)	51,907	149,594	201,501
Investment expenses	-	(35,798)	(35,798)
Total investment return	<u>51,907</u>	<u>311,461</u>	<u>363,368</u>
Transfers in	-	9,249	9,249
Amounts appropriated for spending policy/cash	-	(288,042)	(288,042)
Releases from restrictions	-	(287,896)	(287,896)
Payments on annuities	-	(17,069)	(17,069)
Balance at end of year	<u><u>\$ 379,185</u></u>	<u><u>\$ 7,018,263</u></u>	<u><u>\$ 7,397,448</u></u>

11. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at March 31, 2020 and 2019:

	2020	2019
Subject to expenditure for specified purpose:		
Exhibits and curatorial	\$ 116,525	\$ 244,003
Programs and outreach	233,210	241,073
Capital improvements	47,876	-
Subject to endowment spending policy and appropriation:		
Cumulative realized/unrealized gains	1,036,364	1,453,459
Net assets held in perpetuity	<u>5,236,590</u>	<u>5,255,945</u>
	<u><u>\$ 6,670,565</u></u>	<u><u>\$ 7,194,480</u></u>

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

11. Net Assets with Donor Restrictions (continued)

Net assets released from restrictions for the years ended March 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions:		
Exhibits and curatorial	\$ 147,494	\$ 436,668
Programs and outreach	49,968	230,057
HVAC project	-	204,489
	<u>\$ 197,462</u>	<u>\$ 871,214</u>

12. Pensions

The Museum maintains a defined contribution retirement plan for all eligible employees. The Museum's policy is to match up to 2.5% of employee retirement plan contributions. The pension expense for the years ended March 31, 2020 and 2019 was \$26,524 and \$29,601, respectively.

13. Trust Residuary

The Museum has been named the beneficiary of an irrevocable, charitable remainder trust. The trust agreement calls for annual distributions of 100% of the net income to beneficiaries specified by the donor. Upon the death of the last beneficiary, the trustee shall pay over the remaining trust property, if any, to the Museum. The Museum's interest in the trust residuary is adjusted annually based upon the trust's market value, actuarial tables and discounting at prevailing market rates; these inputs are unobservable. Accordingly, the ultimate amount that the Museum will realize from the trust could significantly differ from the estimated value.

A reconciliation of the trust's activity for the years ended March 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 323,000	\$ 296,000
Unrealized gain	38,000	27,000
Balance at end of year	<u>\$ 361,000</u>	<u>\$ 323,000</u>

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

14. Charitable Gift Annuity

The Museum has entered into an irrevocable agreement with a donor whereby, in exchange for the gift from the donor, the Museum is obligated to provide an annuity to the donor or other designated beneficiaries for his or her lifetime. A liability was recognized for the estimated present value of the annuity obligation and the assets were recorded at market value for agreements where the Museum is the trustee. The difference between the asset and annuity liability was initially recorded as a donor restricted contribution at the date of the gift. During the years ended March 31, 2020 and 2019, management revalued the gift annuity liability through an adjustment of \$12,316 and \$12,297, respectively, which is presented on the statements of activities and changes in net assets. This adjustment was calculated using current actuarial assumptions based on the donor's remaining life expectancy.

15. Building Lease

The building which houses the Museum and Gift Shop is owned by the National Park Service ("NPS"). The Museum's current lease agreement with NPS, which became effective March 1, 2014, is a component of a larger cooperative management agreement. The agreement, which expires on December 31, 2023, sets forth the responsibilities that both the Museum and National Park Service have with regard to the cooperative management and occupancy of the Charlestown Navy Yard. The agreement provides for the Museum to make monthly rental payments of \$3,033 subject to an annual rent increase at the beginning of the second year based on increases in the Consumer Price Index (CPI). Rent expense was \$38,798 and \$34,683 for the years ended March 31, 2020 and 2019, respectively.

Future annual minimum base lease payments are as follows:

Year ending March 31,	Amount
2021	\$ 40,086
2022	41,288
2023	42,527
2024	32,770

16. Concentration Risks

The Museum has a concentration of credit risk in that it maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation. The maximum deposit insurance amount is \$250,000, which is applied per depositor, per insured depository institution for each account ownership category.

Contributions from one donor comprised 13% of total support and revenues for each of the years ended March 31, 2020 and 2019. Receivables from two sources comprised 70% of total accounts, grants and pledges receivable at March 31, 2020. Receivables from three sources 89% of total accounts, grants and pledges receivable as of March 31, 2019.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

17. Advertising Costs

The Museum expenses the cost of advertising in the period the costs are incurred. Advertising expense for the years ended March 31, 2020 and 2019 was \$24,632 and \$42,116, respectively. These amounts are included in advertising and public relations on the statements of functional expenses.

18. Special Events

Special events revenue consisted of the following components for the years ended March 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Special event sponsorships and contributions	\$ 616,489	\$ 325,954
Special event ticket sales	22,825	19,240
Special event auction revenue	10,725	21,250
	<u>\$ 650,039</u>	<u>\$ 366,444</u>

19. Related-Party Transaction

During the year ended March 31, 2020, the Museum entered into an agreement with a catering company owned by a Trustee's family to cater events and meetings. Total expense incurred under this agreement amounted to \$16,985 during the year ended March 31, 2020. The agreement was cancelled in the fall of 2019 when the catering company was closed. There were no related party transactions incurred during the year ended March 31, 2019.

20. Subsequent Events

In March 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic, which has resulted in the temporary closure of the Museum. In addition, the pandemic has resulted in economic uncertainties and increased market volatilities which may impact the Museum's revenue and investments. At the current time, management is unable to estimate the future financial effects, if any, on the Museum as a result of COVID-19 because of the high level of uncertainties and unpredictable outcomes of this disease.

In April 2020, the Museum received a \$350,000 loan under the Small Business Association's ("SBA") Paycheck Protection Program ("PPP") which will be used for employee compensation and related costs, and certain other costs. The PPP loan may be forgiven by the SBA if certain criteria are met.

Notes to Financial Statements

20. Subsequent Events (continued)

In January 2021, the Museum entered into a Memorandum of Intent (“MOI”) with the National Park Service and Boston National Historic Park (collectively with the Museum, the “Partners”) to create a partnership for the design, construction, and operation of an integrated museum and visitor orientation center at the Charlestown Navy Yard (the “Project”). Under the non-binding MOI, the Partners have committed to collaborate on the design and construction of the Project, and to develop mutually agreed upon financial goals for each entity once the plans and cost estimates are further developed. The intent of the MOI is to define the anticipated roles, responsibilities and needs of each entity and to lay the groundwork for subsequent agreements as needed. The contribution of each partner to the project will be determined based upon square footage of the space and will require Partners approval. The Museum’s proposed contribution for construction is estimated at \$27 million based on initial cost estimates. The Museum will engage in a national campaign to raise the construction funds.