

USS CONSTITUTION MUSEUM, INC.

Financial Statements

March 31, 2021 and 2020

USS CONSTITUTION MUSEUM, INC.

March 31, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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
September 29, 2021

USS CONSTITUTION MUSEUM, INC.

Statements of Financial Position March 31,

| | 2021 | 2020 |
|---|----------------------|---------------------|
| Assets: | | |
| Cash | \$ 916,204 | \$ 586,154 |
| Accounts receivable | 1,793 | 7,686 |
| Grants receivable | 30,966 | 128,909 |
| Pledges receivable | 60,600 | 20,517 |
| Inventory | 75,317 | 79,280 |
| Prepaid expenses | 29,511 | 20,193 |
| Deposit | 247,876 | 247,876 |
| Trust residuary | 445,000 | 361,000 |
| Investments | 8,728,582 | 6,432,370 |
| Leasehold improvements, exhibits, and equipment, net | 1,093,965 | 1,154,048 |
| Intangible assets, net | 110,250 | 142,050 |
| Total assets | \$ 11,740,064 | \$ 9,180,083 |
| Liabilities and net assets | | |
| Liabilities: | | |
| Accounts payable | \$ 12,660 | \$ 26,703 |
| Accrued expenses | 172,673 | 180,808 |
| Other liabilities | 8,423 | 8,936 |
| Annuity payable | 113,213 | 117,936 |
| Total liabilities | 306,969 | 334,383 |
| Net assets: | | |
| Without donor restrictions | 2,460,297 | 2,175,135 |
| With donor restrictions | 8,972,798 | 6,670,565 |
| Total net assets | 11,433,095 | 8,845,700 |
| Total liabilities and net assets | \$ 11,740,064 | \$ 9,180,083 |

USS CONSTITUTION MUSEUM, INC.

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

| | 2021 | | | 2020 | | |
|--|----------------------------|-------------------------|------------------|----------------------------|-------------------------|------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| | | | | | | |
| Operating support and revenues: | | | | | | |
| Grants and contributions | \$ 647,734 | \$ 153,752 | \$ 801,486 | \$ 630,391 | \$ 115,292 | \$ 745,683 |
| Appeals | 154,351 | 77,089 | 231,440 | 158,048 | 15,566 | 173,614 |
| Special events | 295,898 | - | 295,898 | 650,039 | - | 650,039 |
| Government grants | 722,926 | - | 722,926 | 262,998 | - | 262,998 |
| In-kind support | 68,536 | - | 68,536 | 114,966 | - | 114,966 |
| Membership dues | 40,295 | - | 40,295 | 50,445 | - | 50,445 |
| Admission fees | 59,006 | - | 59,006 | 751,144 | - | 751,144 |
| Museum store revenue | 23,794 | - | 23,794 | 280,359 | - | 280,359 |
| Other | 8,562 | - | 8,562 | 57,358 | - | 57,358 |
| Net assets released from restrictions | 202,877 | (202,877) | - | 197,462 | (197,462) | - |
| Income from spending policy | 300,552 | (300,552) | - | 395,940 | (395,940) | - |
| Total operating support and revenues | 2,524,531 | (272,588) | 2,251,943 | 3,549,150 | (462,544) | 3,086,606 |
| Operating expenses: | | | | | | |
| Program services | 1,555,422 | - | 1,555,422 | 2,293,251 | - | 2,293,251 |
| Administration | 516,801 | - | 516,801 | 412,749 | - | 412,749 |
| Fundraising | 279,172 | - | 279,172 | 319,193 | - | 319,193 |
| Costs of direct benefits to donors | 40,704 | - | 40,704 | 247,689 | - | 247,689 |
| Total operating expenses | 2,392,099 | - | 2,392,099 | 3,272,882 | - | 3,272,882 |
| Change in net assets from operating activities | 132,432 | (272,588) | (140,156) | 276,268 | (462,544) | (186,276) |
| Nonoperating activities: | | | | | | |
| Net investment return | 165,076 | 2,415,821 | 2,580,897 | (412,058) | (188,480) | (600,538) |
| Annuity liability revaluation adjustment | (12,346) | - | (12,346) | (101,425) | 89,109 | (12,316) |
| Unrealized gain on trust residuary | - | 84,000 | 84,000 | - | 38,000 | 38,000 |
| Capital contributions | - | 75,000 | 75,000 | - | - | - |
| Change in net assets from nonoperating activities | 152,730 | 2,574,821 | 2,727,551 | (513,483) | (61,371) | (574,854) |
| Change in net assets | 285,162 | 2,302,233 | 2,587,395 | (237,215) | (523,915) | (761,130) |
| Net assets, beginning of year | 2,175,135 | 6,670,565 | 8,845,700 | 2,412,350 | 7,194,480 | 9,606,830 |
| Net assets, end of year | \$ 2,460,297 | \$ 8,972,798 | \$ 11,433,095 | \$ 2,175,135 | \$ 6,670,565 | \$ 8,845,700 |

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,

2021

2020

Cash flows from operating activities:

| | | |
|---|----------------|---------------|
| Change in net assets | \$ 2,587,395 | \$ (761,130) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Net unrealized and realized (gains) losses on investments | (2,478,584) | 734,078 |
| Capital contributions | (75,000) | - |
| Unrealized gain on trust residuary | (84,000) | (38,000) |
| Depreciation and amortization | 127,925 | 142,834 |
| Annuity liability revaluation adjustment | 12,346 | 12,316 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 5,893 | 15,510 |
| Grants receivable | 97,943 | 1,024 |
| Pledges receivable | (40,083) | (14,367) |
| Inventory | 3,963 | 6,228 |
| Prepaid expenses | (9,318) | 11,313 |
| Accounts payable | (14,043) | (30,451) |
| Accrued expenses | (8,135) | (7,925) |
| Other liabilities | (513) | 5,855 |
| Net cash provided by operating activities | <u>125,789</u> | <u>77,285</u> |

Cash flows from investing activities:

| | | |
|--|----------------|----------------|
| Purchase of leasehold improvements and equipment | (36,042) | (50,233) |
| Purchase of intangible assets | - | (71,750) |
| Proceeds from sale of investments | 2,110,291 | 1,868,235 |
| Purchase of investments | (1,927,919) | (1,637,235) |
| Net cash provided by investing activities | <u>146,330</u> | <u>109,017</u> |

Cash flows from financing activities:

| | | |
|--|---------------|-----------------|
| Payments on annuities | (17,069) | (17,069) |
| Proceeds from capital contributions | 75,000 | - |
| Net cash provided by (used in) financing activities | <u>57,931</u> | <u>(17,069)</u> |

| | | |
|--------------------------------|-------------------|-------------------|
| Net increase in cash | 330,050 | 169,233 |
| Cash, beginning of year | <u>586,154</u> | <u>416,921</u> |
| Cash, end of year | <u>\$ 916,204</u> | <u>\$ 586,154</u> |

USS CONSTITUTION MUSEUM, INC.

Statement of Functional Expenses
For the Year Ended March 31, 2021

| | Curatorial | Education/ Interpretation Services | Retail Operations | Marketing | Exhibits | Total Program Services | Administration | Fundraising | Costs of Direct Benefits to Donors | Total |
|-----------------------------------|-------------------|--|----------------------|------------------|-------------------|------------------------------|-------------------|-------------------|---|---------------------|
| Salaries | \$ 184,210 | \$ 320,121 | \$ 4,102 | \$ 52,049 | \$ 169,996 | \$ 730,478 | \$ 342,174 | \$ 195,189 | \$ - | \$ 1,267,841 |
| Occupancy | 23,896 | 73,241 | 44,383 | 822 | 75,697 | 218,039 | 20,146 | 4,292 | - | 242,477 |
| Benefits | 31,962 | 43,070 | - | 759 | 46,778 | 122,569 | 43,653 | 24,948 | - | 191,170 |
| Collections | 158,857 | - | - | - | - | 158,857 | - | - | - | 158,857 |
| Depreciation and amortization | 23,877 | 42,811 | 455 | - | 60,037 | 127,180 | - | 745 | - | 127,925 |
| Payroll taxes | 14,383 | 20,300 | - | 6,870 | 13,121 | 54,674 | 28,945 | 16,490 | - | 100,109 |
| Professional fees | 356 | 11,573 | 120 | 119 | 5,975 | 18,143 | 46,566 | 475 | 24,822 | 90,006 |
| Office equipment | 10,166 | 15,477 | - | 881 | 5,237 | 31,761 | 7,125 | 16,373 | - | 55,259 |
| Insurance | 12,075 | 29,089 | 2,744 | 1,647 | 5,488 | 51,043 | 2,744 | 1,098 | - | 54,885 |
| Bank charges | 12 | 7,950 | - | - | - | 7,962 | 4,760 | 8,743 | - | 21,465 |
| Miscellaneous | 143 | 989 | - | - | 1,430 | 2,562 | 12,555 | - | 346 | 15,463 |
| Cultivation | - | - | - | - | - | - | - | 2,341 | 11,604 | 13,945 |
| Office supplies | 123 | 4,211 | 49 | 30 | 251 | 4,664 | 2,677 | 1,116 | 433 | 8,890 |
| Cost of goods sold | - | - | 7,919 | - | - | 7,919 | - | - | - | 7,919 |
| Postage and shipping | 2 | 39 | - | - | 24 | 65 | 1,886 | 2,395 | 3,369 | 7,715 |
| Exhibits | - | - | - | - | 6,785 | 6,785 | - | - | - | 6,785 |
| Printing | - | - | - | - | 977 | 977 | - | 4,463 | - | 5,440 |
| Membership dues and subscriptions | 594 | 50 | - | - | - | 644 | 3,570 | 504 | - | 4,718 |
| Adversting and public relations | - | 618 | - | 3,782 | - | 4,400 | - | - | - | 4,400 |
| Website | - | - | - | - | 4,017 | 4,017 | - | - | - | 4,017 |
| Program and workshops | - | 2,531 | - | - | - | 2,531 | - | - | - | 2,531 |
| Conservation | 152 | - | - | - | - | 152 | - | - | - | 152 |
| Meals | - | - | - | - | - | - | - | - | 130 | 130 |
| Total functional expenses | \$ 460,808 | \$ 572,070 | \$ 59,772 | \$ 66,959 | \$ 395,813 | \$ 1,555,422 | \$ 516,801 | \$ 279,172 | \$ 40,704 | \$ 2,392,099 |

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, 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 |
| Advertising 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.

Notes to Financial Statements

1. Museum Purpose

The USS Constitution Museum, Inc. (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.

During the year ended March 31, 2021, the Museum was closed to the public from the beginning of the fiscal year through July 2020, due to the COVID-19 pandemic. The Museum reopened from August 2020 through mid-November 2020 and welcomed 7,796 visitors from 49 states during that time. The museum closed again from mid-November through the balance of the fiscal year, and reopened again in April 2021. During the closure, a virtual museum was set up to share *Constitution*’s story with the public. The Museum shared content and activities online via all of its social media outlets and redesigned its website homepage to feature the online offerings. The Museum’s virtual efforts in FY2021 reached over 450,000 people across all 50 states and were recognized by *Boston Magazine* as one of “The Coolest Ways to Experience Boston Museums Virtually Right Now.” In 2020, the Museum relaunched its award-winning *A Sailor’s Life for Me!* online game and developed *Join the Crew*, a virtual version of the Museum’s *All Hands on Deck* exhibit. The Museum also developed 4 video series to share its collections and research with the public virtually. The over 30 videos posted online during the past year were viewed over 21,000 times. In October 2020, the Museum acquired a collection of 150 documents that will redefine the Museum’s ability to interpret and present the early period of both the Ship’s history and the sailing navy and will elevate the stature of the Museum’s Samuel Eliot Morison Memorial Library as a nationally significant research center and archival repository. In 2020, TripAdvisor named the Museum one of its 2020 Traveler’s Choice Winners and received *Boston Parents Paper’s* Family Favorite Award in the Historic Site and Tours category for the 3rd year in a row. In February 2021, the USS Constitution Museum received Charity Navigator’s 4-star rating for the 8th consecutive year.

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.

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.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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

Grants, 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. Grants, 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. Conditional grants, contributions and appeals are recognized as support when performance and/or control barriers are met by the Museum.

Grants and pledges receivable that are expected to be collected within one year are reported at net realizable value. Grants and pledges 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 contribution revenue.

Revenue from special events is recognized when the events occur. 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.

Under the terms of cost reimbursement agreements with government agencies and nonprofit organizations, grant revenues are recognized as expenses are incurred. Grants received from competitive grant programs help fund specific projects. As of March 31, 2021 and 2020, approximately \$415,000 and \$221,000, respectively, in 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.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Revenue and Support (continued)

A substantial number of unpaid volunteers have also made significant contributions of time to work on the Museum's various programs. Due to the COVID-19 pandemic, there were no unpaid volunteer hours during the year ended March 31, 2021. During the year ended March 31, 2020, there were 1,925 unpaid volunteer hours. 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. Admissions fees are on a voluntary donation basis and therefore, are recognized as nonexchange transactions.

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. Revenue earned under this contract is considered one performance obligation which is recognized when the gift shop sales occur. 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. Sales of inventory are considered one performance obligation and are recognized at the point in time when the performance obligation is satisfied by delivering the merchandise to the gift shop. 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. Dividends and interest are recognized when earned. Gains and losses are recorded when realized. Unrealized gains or losses are recognized based upon changes in the fair value of investments held.

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)

Functional Allocation of Expenses (continued)

During the year ended March 31, 2021, due to the COVID-19 pandemic and reduced activities and expenditures, many of the expenses above that are allocated based on associated activity did not require allocation.

Use of Estimates and Subsequent Events

The presentation 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 the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the amounts of revenues and expenses during the reporting period. 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 September 29, 2021, the date these financial statements became available to be issued. Except for the events disclosed in Note 20, no events have occurred subsequent to the statement of financial position date and through the date of evaluation that meet the criteria required for disclosure or accrual.

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 \$2,200 and \$7,203 for the years ended March 31, 2021 and 2020, respectively.

Recently Adopted Accounting Pronouncement

On April 1, 2020, the Museum adopted Financial Accounting Standards Board's ("FASB") Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and its subsequent amendments ("ASU 2014-09"), which creates a single, comprehensive revenue recognition model for recognizing revenue from contracts with customers. The core principle of this new revenue recognition standard is that an entity should 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. ASU 2014-09 was adopted on a modified retrospective basis, and did not result in a significant change in the judgment or timing associated with the recognition of revenue for the Museum. As such, the adoption of ASU 2014-09 did not result in a cumulative adjustment as of April 1, 2020, and it did not have a material impact on the Museum's financial statements.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Accounting Pronouncement Issued and Not Adopted

In February 2016, the FASB issued Accounting Standards Update 2016-02 (Topic 842) – *Leases* (“ASU 2016-02”). This new lease standard requires most leases with terms over 12 months to be capitalized as a right-to-use asset and lease liability on the statement of financial position at the date of the lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities and changes in net assets. This standard will be effective for the Museum during the year ended March 31, 2023. The Museum is currently in the process of evaluating the impact of adopting ASU 2016-02.

3. In-Kind Support

The Museum received in-kind goods and services during the years ended March 31, 2021 and 2020 as follows:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------|------------------|-------------------|
| Utilities | \$ 68,281 | \$ 32,954 |
| Program advertising | 255 | 12,301 |
| Construction and architectural | - | 47,251 |
| Auction items | - | 13,220 |
| Gifts for fundraising | - | 9,240 |
| | <u>\$ 68,536</u> | <u>\$ 114,966</u> |

4. Leasehold Improvements, Exhibits and Equipment

Leasehold improvements, exhibits and equipment consisted of the following at March 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Leasehold improvements | \$ 2,510,789 | \$ 2,501,339 |
| Exhibits | 1,041,842 | 1,041,842 |
| Furniture and equipment | 246,720 | 220,128 |
| Library and vault | 998,820 | 998,820 |
| | <u>4,798,171</u> | <u>4,762,129</u> |
| Less - accumulated depreciation and amortization | <u>(3,704,206)</u> | <u>(3,608,081)</u> |
| | <u>\$ 1,093,965</u> | <u>\$ 1,154,048</u> |

5. Deposit

The Museum paid a deposit of \$247,876 relating to an HVAC project that is expected to begin during the year ended March 31, 2022.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

6. Intangible Assets

Intangible assets consisted of the following at March 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------|-------------------|-------------------|
| Website development costs | \$ 159,500 | \$ 159,500 |
| Less - accumulated amortization | <u>(49,250)</u> | <u>(17,450)</u> |
| | <u>\$ 110,250</u> | <u>\$ 142,050</u> |

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

| Year ending March 31, | <u>Amount</u> |
|-----------------------|---------------|
| 2022 | \$ 31,800 |
| 2023 | 31,800 |
| 2024 | 31,000 |
| 2025 | 15,650 |

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, 2021 and 2020, no allowance for bad debts was deemed necessary.

Grants receivable at March 31, 2021 and 2020 are due within one year and are recorded at their net realizable value.

Pledges receivable at March 31, 2021 and 2020 consisted of the following:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------------|------------------|------------------|
| Receivable due in less than one year | \$ 35,600 | \$ 20,517 |
| Receivable in one to five years | <u>25,000</u> | <u>-</u> |
| | <u>\$ 60,600</u> | <u>\$ 20,517</u> |

No present value discount on pledges receivable in greater than one year has been recorded at March 31, 2021 as the amount is not material to the financial statements.

At March 31, 2021 and 2020, 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, 2021 and 2020:

| | 2021 | | 2020 | |
|------------------------|---------------------|-------------------|---------------------|-------------------|
| | Level 1 | Level 2 | Level 1 | Level 2 |
| Money market funds | \$ 360,279 | \$ - | \$ 213,178 | \$ - |
| Government bonds | 625,088 | - | 637,151 | - |
| Corporate bonds | - | 710,097 | - | 722,804 |
| Agency bonds | - | 3,785 | - | 4,564 |
| <u>Common stock:</u> | | | | |
| Financial services | 1,541,577 | - | 1,128,537 | - |
| Information technology | 713,821 | - | 564,012 | - |
| Healthcare | 413,965 | - | 294,852 | - |
| Consumer discretionary | 532,301 | - | 221,137 | - |
| Communication services | 510,003 | - | 214,633 | - |
| Industrials | 271,417 | - | 199,973 | - |
| Consumer staples | 239,019 | - | 172,415 | - |
| Utilities | 102,126 | - | 117,382 | - |
| Real estate | 110,416 | - | 43,320 | - |
| Materials | 84,835 | - | 41,533 | - |
| <u>Mutual funds:</u> | | | | |
| Equity | 2,509,853 | - | 1,646,736 | - |
| Fixed income | - | - | 210,143 | - |
| | <u>\$ 8,014,700</u> | <u>\$ 713,882</u> | <u>\$ 5,705,002</u> | <u>\$ 727,368</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, 2021 and 2020, are comprised of the following:

| | 2021 | 2020 |
|--|---------------------|-------------------|
| Cash | \$ 804,056 | \$ 473,512 |
| Accounts receivable | 1,793 | 7,686 |
| Grants receivable | 30,966 | 128,909 |
| Pledges receivable | 10,600 | 20,517 |
| Amounts appropriated from spending policy for general operations | 375,688 | 300,551 |
| Financial assets available to meet general expenditures within the next year | <u>\$ 1,223,103</u> | <u>\$ 931,175</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 six 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 4% of the three-year rolling average market value of endowment assets.

The following schedules summarize endowment related activity for the years ended March 31, 2021 and 2020:

| | 2021 | | |
|--|-------------------------------|----------------------------|--------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Balance at beginning of year | \$ 332,585 | \$ 5,911,954 | \$ 6,244,539 |
| Investment return: | | | |
| Interest and dividends | - | 99,202 | 99,202 |
| Realized and unrealized gains (net) | 123,258 | 2,283,992 | 2,407,250 |
| Investment expenses | - | (28,228) | (28,228) |
| Total investment return | 123,258 | 2,354,966 | 2,478,224 |
| Contributions | - | 95,752 | 95,752 |
| Amounts appropriated for spending policy/cash | - | (300,552) | (300,552) |
| Balance at end of year | \$ 455,843 | \$ 8,062,120 | \$ 8,517,963 |

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

10. Endowment (continued)

| | <u>2020</u> | | |
|--|---------------------------------------|------------------------------------|---------------------|
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| 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 | <u>(46,600)</u> | <u>(188,480)</u> | <u>(235,080)</u> |
| Contributions | - | 20,861 | 20,861 |
| Transfers in | - | 54,909 | 54,909 |
| Transfer out of endowment | - | (544,587) | (544,587) |
| Annuity revaluations | - | (53,072) | (53,072) |
| Amounts appropriated for spending policy/cash | - | (395,940) | (395,940) |
| Balance at end of year | <u>\$ 332,585</u> | <u>\$ 5,911,954</u> | <u>\$ 6,244,539</u> |

11. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at March 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Subject to expenditure for specified purpose: | | |
| Exhibits and curatorial | \$ 37,285 | \$ 116,525 |
| Programs and outreach | 305,518 | 233,210 |
| Capital improvements | 122,876 | 47,876 |
| Subject to endowment spending policy and appropriation: | | |
| Cumulative realized/unrealized gains | 3,090,777 | 1,036,364 |
| Net assets held in perpetuity | <u>5,416,342</u> | <u>5,236,590</u> |
| | <u>\$ 8,972,798</u> | <u>\$ 6,670,565</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, 2021 and 2020 were as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------|-------------------|-------------------|
| Satisfaction of purpose restrictions: | | |
| Exhibits and curatorial | \$ 159,328 | \$ 147,494 |
| Program and outreach | 43,549 | 49,968 |
| | <u>\$ 202,877</u> | <u>\$ 197,462</u> |

12. Pension Plan

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, 2021 and 2020 was \$20,765 and \$26,524, 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, 2021 and 2020 is as follows:

| | <u>2021</u> | <u>2020</u> |
|------------------------------|-------------------|-------------------|
| Balance at beginning of year | \$ 361,000 | \$ 323,000 |
| Unrealized gain | 84,000 | 38,000 |
| Balance at end of year | <u>\$ 445,000</u> | <u>\$ 361,000</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, 2021 and 2020, management revalued the gift annuity liability through an adjustment of \$12,346 and \$12,316, 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 NPS 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 \$39,656 and \$38,798 for the years ended March 31, 2021 and 2020, respectively.

Future annual minimum base lease payments are as follows:

| Year ending March 31, | Amount |
|-----------------------|-----------|
| 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.

Grants and contributions from two donors comprised 32% of total support and revenues for the year ended March 31, 2021. This includes the Paycheck Protection Program loan received during this fiscal year (see Note 20). Grants and contributions from one donor comprised 13% of total support and revenues for the year ended March 31, 2020. Receivables from two sources comprised 78% and 70% of total accounts, grants and pledges receivable at March 31, 2021 and 2020, respectively.

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, 2021 and 2020 was \$255 and \$24,632, 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, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Special event sponsorships and contributions | \$ 293,698 | \$ 616,489 |
| Special event ticket sales | 2,200 | 22,825 |
| Special event auction revenue | - | 10,725 |
| | <u>\$ 295,898</u> | <u>\$ 650,039</u> |

19. Related-Party Transaction

There were no related party transactions incurred during the year ended March 31, 2021. 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.

20. Paycheck Protection Program Loan

On April 17, 2020, the Museum entered into a Paycheck Protection Program ("PPP") loan agreement for \$350,000 granted by the Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Under the loan agreement, all or a portion of the loan and accrued interest is forgivable based on the amount of qualifying expenses incurred and levels of employee headcount and salaries maintained during a measurement period. As the Museum expected to meet the PPP's eligibility criteria for forgiveness in full, it accounted for the entire loan amount as a grant, and recorded revenue as the qualifying expenses were incurred. During the coverage period as defined in the loan agreement, and prior to March 31, 2021, the Museum incurred qualifying expenses in excess of the loan amount, and therefore, recognized the entire loan amount of \$350,000 as government grant revenue.

The loan bears interest at a rate of 1%, however, the Museum did not accrue interest relating to this loan as management considered it immaterial to the financial statements. In August 2021, the Museum received full forgiveness of the PPP loan and accrued interest from the SBA.

The Museum received a second PPP loan for \$350,000 on April 1, 2021. The terms of the loan are similar to those above and the loan may be forgiven by the SBA if certain criteria are met.

Notes to Financial Statements

21. Memorandum of Intent

In January 2021, the Museum entered into a Memorandum of Intent (“MOI”) with the NPS 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.

22. Uncertainty Regarding the Impact of COVID-19

The Museum is subject to risks and uncertainties as a result of the current COVID-19 pandemic. The COVID-19 pandemic has presented a substantial public health and economic challenge around the world and is affecting the U.S. economy and other economies worldwide. The full extent to which the COVID-19 pandemic may impact the Museum depends on future developments that are highly uncertain and may not be accurately predicted, including the duration and severity of the pandemic. The Museum is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.