

USS CONSTITUTION MUSEUM, INC.

Financial Statements

March 31, 2022 and 2021

USS CONSTITUTION MUSEUM, INC.

March 31, 2022 and 2021

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of USS Constitution Museum, Inc., (a nonprofit organization), which comprise the statements of financial position as of March 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of USS Constitution Museum, Inc. as of March 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of USS Constitution Museum, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about USS Constitution Museum, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 USS Constitution Museum, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about USS Constitution Museum, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Edelstein & Company LLP

Boston, Massachusetts
October 24, 2022

USS CONSTITUTION MUSEUM, INC.

Statements of Financial Position March 31,

	2022	2021
Assets:		
Cash	\$ 2,708,365	\$ 916,204
Accounts receivable	31,829	1,793
Grants receivable	72,706	30,966
Pledges receivable	28,200	60,600
Inventory	56,601	75,317
Prepaid expenses	22,899	29,511
Deposit	-	247,876
Trust residuary	533,000	445,000
Investments	9,157,258	8,728,582
Leasehold improvements, exhibits, and equipment, net	992,693	1,093,965
Intangible assets, net	86,900	110,250
Total assets	\$ 13,690,451	\$ 11,740,064
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 13,035	\$ 12,660
Accrued expenses	269,245	172,673
Other liabilities	5,956	8,423
Annuity payable	108,528	113,213
Total liabilities	396,764	306,969
Net assets:		
Without donor restrictions	2,998,804	2,460,297
With donor restrictions	10,294,883	8,972,798
Total net assets	13,293,687	11,433,095
Total liabilities and net assets	\$ 13,690,451	\$ 11,740,064

USS CONSTITUTION MUSEUM, INC.

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

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenues:						
Grants and contributions	\$ 603,342	\$ 142,952	\$ 746,294	\$ 647,734	\$ 153,752	\$ 801,486
Appeals	152,160	79,505	231,665	154,351	77,089	231,440
Special events	353,891	-	353,891	295,898	-	295,898
Government grants	596,415	200,000	796,415	722,926	-	722,926
Contributed services	99,271	-	99,271	68,536	-	68,536
Membership dues	45,000	-	45,000	40,295	-	40,295
Admission fees	721,400	-	721,400	59,006	-	59,006
Museum store revenue	263,742	-	263,742	23,794	-	23,794
Other	36,553	-	36,553	8,562	-	8,562
Net assets released from restrictions	356,496	(356,496)	-	202,877	(202,877)	-
Income from spending policy	308,124	(308,124)	-	300,552	(300,552)	-
Total operating support and revenues	3,536,394	(242,163)	3,294,231	2,524,531	(272,588)	2,251,943
Operating expenses:						
Program services	2,500,230	-	2,500,230	1,555,422	-	1,555,422
Administration	418,381	-	418,381	516,801	-	516,801
Fundraising	442,404	-	442,404	279,172	-	279,172
Costs of direct benefits to donors	36,208	-	36,208	40,704	-	40,704
Total operating expenses	3,397,223	-	3,397,223	2,392,099	-	2,392,099
Change in net assets from operating activities	139,171	(242,163)	(102,992)	132,432	(272,588)	(140,156)
Nonoperating activities:						
Net investment return	178,391	483,973	662,364	165,076	2,415,821	2,580,897
Annuity liability revaluation adjustment	(12,384)	-	(12,384)	(12,346)	-	(12,346)
Unrealized gain on trust residuary	-	88,000	88,000	-	84,000	84,000
New Museum Project grants and contributions	-	1,225,604	1,225,604	-	75,000	75,000
Net assets released from restrictions, New Museum Project	233,329	(233,329)	-	-	-	-
Change in net assets from nonoperating activities	399,336	1,564,248	1,963,584	152,730	2,574,821	2,727,551
Change in net assets	538,507	1,322,085	1,860,592	285,162	2,302,233	2,587,395
Net assets, beginning of year	2,460,297	8,972,798	11,433,095	2,175,135	6,670,565	8,845,700
Net assets, end of year	<u>\$ 2,998,804</u>	<u>\$ 10,294,883</u>	<u>\$ 13,293,687</u>	<u>\$ 2,460,297</u>	<u>\$ 8,972,798</u>	<u>\$ 11,433,095</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,

2022

2021

Cash flows from operating activities:

Change in net assets	\$ 1,860,592	\$ 2,587,395
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized and realized gains on investments	(450,222)	(2,478,584)
Unrealized gain on trust residuary	(88,000)	(84,000)
Depreciation and amortization	178,109	127,925
Annuity liability revaluation adjustment	12,384	12,346
Changes in operating assets and liabilities:		
Accounts receivable	(30,036)	5,893
Grants receivable	(41,740)	97,943
Pledges receivable	32,400	(40,083)
Inventory	18,716	3,963
Prepaid expenses	6,612	(9,318)
Deposit	247,876	-
Accounts payable	375	(14,043)
Accrued expenses	96,572	(8,135)
Other liabilities	(2,467)	(513)

Net cash provided by operating activities

1,841,171

200,789

Cash flows from investing activities:

Purchases of equipment	(45,037)	(36,042)
Purchases of intangible assets	(8,450)	-
Proceeds from sale of investments	2,262,682	2,110,291
Purchases of investments	(2,241,136)	(1,927,919)

Net cash (used in) provided by investing activities

(31,941)

146,330

Cash flows used in financing activities:

Payments on annuities	(17,069)	(17,069)
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Net increase in cash

1,792,161

330,050

Cash, beginning of year

916,204

586,154

Cash, end of year

\$ 2,708,365

\$ 916,204

USS CONSTITUTION MUSEUM, INC.

Statement of Functional Expenses
For the Year Ended March 31, 2022

	Curatorial	Education/ Interpretation Services	Retail Operations	Marketing	Exhibits	Total Program Services	Administration	Fundraising	Costs of Direct Benefits to Donors	Total
Salaries	\$ 197,685	\$ 528,994	\$ 41,769	\$ 4,112	\$ 269,164	\$ 1,041,724	\$ 217,952	\$ 225,516	\$ -	\$ 1,485,192
Occupancy	274,339	86,266	45,665	867	124,224	531,361	22,297	4,733	-	558,391
Professional fees	526	85,018	7,235	10,131	124,337	227,247	88,559	96,979	15,151	427,936
Benefits	32,131	64,701	4,185	75	49,243	150,335	31,443	18,128	-	199,906
Depreciation and amortization	70,245	46,415	455	-	60,091	177,206	-	903	-	178,109
Payroll taxes	16,640	45,863	3,149	363	20,622	86,637	18,242	17,762	-	122,641
Office equipment	5,418	15,206	-	4,254	4,233	29,111	13,434	22,216	-	64,761
Insurance	12,560	30,259	2,855	1,713	5,709	53,096	2,855	1,142	-	57,093
Cost of goods sold	-	-	49,976	-	-	49,976	-	-	-	49,976
Collections	48,699	-	-	-	-	48,699	-	-	-	48,699
Cultivation	-	-	-	-	-	-	-	26,023	1,428	27,451
Miscellaneous	175	2,638	-	10	19,106	21,929	3,664	1,523	-	27,116
Bank charges	-	6,872	-	-	-	6,872	3,595	15,054	-	25,521
Program and workshops	-	21,502	-	-	-	21,502	-	-	-	21,502
Catering/dining	-	-	-	-	-	-	-	-	18,728	18,728
Exhibits	-	-	-	-	16,464	16,464	-	-	-	16,464
Advertising and public relations	-	3,854	-	9,473	2,145	15,472	-	-	-	15,472
Office supplies	168	1,734	51	37	460	2,450	9,137	1,327	-	12,914
Printing	-	4,333	-	-	-	4,333	-	6,093	-	10,426
Membership dues and subscriptions	609	100	-	839	-	1,548	6,509	1,480	-	9,537
Website	-	-	-	-	6,156	6,156	-	-	-	6,156
Travel	2,467	2,389	295	-	538	5,689	192	-	-	5,881
Postage and shipping	106	109	-	-	958	1,173	502	2,461	901	5,037
Meals	-	590	-	-	-	590	-	1,064	-	1,654
Conservation	660	-	-	-	-	660	-	-	-	660
	<u>\$ 662,428</u>	<u>\$ 946,843</u>	<u>\$ 155,635</u>	<u>\$ 31,874</u>	<u>\$ 703,450</u>	<u>\$ 2,500,230</u>	<u>\$ 418,381</u>	<u>\$ 442,404</u>	<u>\$ 36,208</u>	<u>\$ 3,397,223</u>

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, 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
	<u>\$ 460,808</u>	<u>\$ 572,070</u>	<u>\$ 59,772</u>	<u>\$ 66,959</u>	<u>\$ 395,813</u>	<u>\$ 1,555,422</u>	<u>\$ 516,801</u>	<u>\$ 279,172</u>	<u>\$ 40,704</u>	<u>\$ 2,392,099</u>

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 fiscal year ended March 31, 2022, the Museum welcomed 176,882 visitors to explore the Museum’s galleries and offered virtual programming that reached people from across the country. The Museum reopened to the public four days a week on Thursday, April 8, 2021, following the winter COVID-19 pandemic spike, and reopened daily beginning Memorial Day weekend. Over the past year, the Museum provided opportunities for students to explore the Museum and *Constitution* through virtual field trips and offered on-site programs once the Museum reopened. The Museum developed videos to share its collections and research with the public both virtually and on-site and hosted special programs for both the military community and the public, partnering with groups such as Operation Gratitude, the USO, TAPS, Home Base, and Boston Vet Center. In March 2022, the Museum completed its IMLS grant funded “All Aboard” initiative working with the crew of “Old Ironsides” to offer joint educational programs for students and families. In 2022, planning continued for a new USS Constitution Museum (“New Museum Project”) in a proposed Gateway Center to the Charlestown Navy Yard under development in partnership with the National Parks of Boston and U.S. Navy/USS *Constitution* (see Note 20). The Museum worked with its board members, architects and exhibit design consultants to develop space needs and preliminary exhibit plans for the new museum. Planning for a capital campaign is also underway. In May 2021, the Museum was voted one of the best history museums in the country by *USA Today* as part of their 10 Best Readers’ Choice travel awards. The Museum also received *Boston Parents Paper’s* Family Favorite Award in the Historic Site and Tours category for the 4th year in a row. In March 2022, the Museum received Charity Navigator’s 4-star rating for the 10th 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.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Measure of Operations

The Museum's measure of operations includes all operating support and revenues and expenses included in net assets without donor restrictions that are an integral part of its programs and supporting activities, including net assets released from donor restrictions to support operating activities. The measure of operations also includes distributions from the endowment in support of operating expenses as appropriated by the Museum's Board of Trustees (see Note 10). The measure of operations excludes net investment return on the endowment that exceeds or is less than the annual distribution appropriated by the Board of Trustees, changes in fair value of other agreements, contributions with donor restrictions for the New Museum Project, and related expenses for this project.

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

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 purpose 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.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Revenue and Support (continued)

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, 2022 and 2021, approximately \$520,000 and \$415,000, 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.

A substantial number of unpaid volunteers have also made significant contributions of time to work on the Museum's various programs. During the year ended March 31, 2022, there were 698 unpaid volunteer hours. Due to the COVID-19 pandemic, there were no unpaid volunteer hours during the year ended March 31, 2021. 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.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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.

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 are 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 7 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
Depreciation	Asset use
Occupancy	Square footage

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 October 24, 2022, the date these financial statements became available to be issued. 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 \$230 and \$2,200 for the years ended March 31, 2022 and 2021, respectively.

Recently Adopted Accounting Pronouncements

On April 1, 2021, the Museum adopted Financial Accounting Standards Board's ("FASB") Accounting Standards Update No. 2020-07: *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), which improves transparency in the reporting of contributed nonfinancial assets. ASU 2020-07 requires contributed nonfinancial assets to be presented as a separate line item in the statement of activities and changes in net assets, apart from contributions of cash or other financial assets. It also requires a disaggregation of the amount of contributed nonfinancial assets by category that depicts the type of contributed nonfinancial assets, qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period, a description of any donor-imposed restrictions associated with the contributed nonfinancial assets, and the valuation techniques and inputs used to arrive at a fair value measure. ASU 2020-07 was adopted on a retrospective basis and did not result in a change in the judgment or timing associated with the recognition of revenue for the Museum. As such, the adoption of ASU 2020-07 did not result in a cumulative adjustment as of April 1, 2021, and it did not have a material impact on the Museum's financial statements.

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.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the 2021 financial statements have been reclassified to conform to the 2022 financial statements.

3. Contributed Services

The Museum received the following contributed services during the years ended March 31, 2022 and 2021:

	2022	2021	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Utilities	\$ 99,271	\$ 68,281	Allocated among function	No associated donor restrictions	Valued based on the actual utility bills shared by the Museum and the National Park Service and the Musuem's share of usage
Advertising	-	255	Marketing	No associated donor restrictions	Etimated fair value based on current rates for similar advertising services
	<u>\$ 99,271</u>	<u>\$ 68,536</u>			

4. Leasehold Improvements, Exhibits and Equipment

Leasehold improvements, exhibits and equipment consisted of the following at March 31, 2022 and 2021:

	2022	2021
Leasehold improvements	\$ 2,510,789	\$ 2,510,789
Exhibits	1,041,842	1,041,842
Furniture and equipment	284,403	246,720
Library and vault	998,820	998,820
	<u>4,835,854</u>	<u>4,798,171</u>
Less - accumulated depreciation and amortization	<u>(3,843,161)</u>	<u>(3,704,206)</u>
	<u>\$ 992,693</u>	<u>\$ 1,093,965</u>

Depreciation expense during the years ended March 31, 2022 and 2021 was \$146,309 and \$96,125, respectively. During the year ended March 31, 2022, the Museum disposed of certain fully depreciated furniture and equipment with an original cost of \$7,354.

5. Deposit

At March 31, 2021, the Museum had an outstanding deposit of \$247,876 relating to an HVAC project that had not started as of year-end. The project was completed in January 2022, and the deposit was applied to the cost of the repairs which took place, which is included in occupancy expense on the statement of functional activities for 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Website development costs	\$ 167,950	\$ 159,500
Less - accumulated amortization	(81,050)	(49,250)
	<u>\$ 86,900</u>	<u>\$ 110,250</u>

Amortization of the website development costs during each of the years ended March 31, 2022 and 2021 was \$31,800.

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

Year ending March 31,	<u>Amount</u>
2023	\$ 33,490
2024	32,690
2025	16,040
2026	2,990
2027	1,690

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, 2022 and 2021, no allowance for bad debts was deemed necessary.

Grants receivable at March 31, 2022 and 2021 are due within one year and are recorded at their net realizable value.

Pledges receivable at March 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Receivable due in less than one year	\$ 28,200	\$ 35,600
Receivable in one to five years	-	25,000
	<u>\$ 28,200</u>	<u>\$ 60,600</u>

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

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

7. Receivables (continued)

At March 31, 2022, the Museum had a conditional grant of \$1,000,000 for the New Museum Project which includes a \$500,000 matching requirement. The grant 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.

At March 31, 2021, the Museum had a conditional grant of \$200,000 to fund an HVAC project (see Note 5) which was not recognized as an asset in the statement of financial position or as revenue in the statement of activities and changes in net assets as the conditions of the grant were not met. During the year ended March 31, 2022, the project was completed, and the Museum received and recognized the grant of \$200,000 as revenue in the statement of activities and changes in net assets.

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, 2022 and 2021:

	2022		2021	
	Level 1	Level 2	Level 1	Level 2
Money market funds	\$ 749,684	\$ -	\$ 360,279	\$ -
Government bonds	604,423	-	625,088	-
Corporate bonds	-	676,496	-	710,097
Agency bonds	2,501	-	-	3,785
<u>Common stock:</u>				
Financial services	1,887,022	-	1,541,577	-
Information technology	734,870	-	713,821	-
Healthcare	446,419	-	413,965	-
Consumer discretionary	401,476	-	532,301	-
Communication services	355,313	-	510,003	-
Consumer staples	290,336	-	239,019	-
Industrials	229,459	-	271,417	-
Utilities	106,906	-	102,126	-
Materials	75,241	-	84,835	-
Real estate	32,305	-	110,416	-
Energy	21,598	-	-	-
<u>Mutual funds:</u>				
Equity	2,543,209	-	2,509,853	-
	<u>\$ 8,480,762</u>	<u>\$ 676,496</u>	<u>\$ 8,014,700</u>	<u>\$ 713,882</u>

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

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

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.

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, 2022 and 2021, are comprised of the following:

	<u>2022</u>	<u>2021</u>
Cash	\$ 2,243,872	\$ 804,056
Accounts receivable	31,829	1,793
Grants receivable	72,706	30,966
Pledges receivable	3,200	10,600
Amounts appropriated from spending policy for general operations	<u>347,674</u>	<u>375,688</u>
Financial assets available to meet general expenditures within the next year	<u>\$ 2,699,281</u>	<u>\$ 1,223,103</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, 2022 and 2021:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Balance at beginning of year	\$ 455,843	\$ 8,062,120	\$ 8,517,963
Investment return:			
Interest and dividends	-	211,884	211,884
Realized and unrealized gains (net)	146,574	301,288	447,862
Investment expenses	-	(35,785)	(35,785)
Total investment return	<u>146,574</u>	<u>477,387</u>	<u>623,961</u>
Contributions	-	92,952	92,952
Amounts appropriated for spending policy/cash	-	(308,124)	(308,124)
Balance at end of year	<u>\$ 602,417</u>	<u>\$ 8,324,335</u>	<u>\$ 8,926,752</u>

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

10. Endowment (continued)

	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	<u>123,258</u>	<u>2,354,966</u>	<u>2,478,224</u>
Contributions	-	95,752	95,752
Amounts appropriated for spending policy/cash	-	(300,552)	(300,552)
Balance at end of year	<u>\$ 455,843</u>	<u>\$ 8,062,120</u>	<u>\$ 8,517,963</u>

11. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at March 31, 2022 and 2021:

	2022	2021
Subject to expenditure for specified purpose:		
Exhibits and curatorial	\$ 31,451	\$ 37,285
Programs and outreach	338,823	353,394
New Museum Project	1,067,275	75,000
Subject to endowment spending policy and appropriation:		
Cumulative realized/unrealized gains	3,260,040	3,090,777
Net assets held in perpetuity	<u>5,597,294</u>	<u>5,416,342</u>
	<u>\$ 10,294,883</u>	<u>\$ 8,972,798</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, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Operating activities:		
Satisfaction of purpose restrictions:		
Operating activities:		
Exhibits and curatorial	\$ 85,338	\$ 159,328
Program and outreach	<u>271,158</u>	<u>43,549</u>
	356,496	202,877
Nonoperating activities:		
New Museum Project	<u>233,329</u>	<u>-</u>
	<u>\$ 589,825</u>	<u>\$ 202,877</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, 2022 and 2021 was \$27,147 and \$20,765, 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, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	\$ 445,000	\$ 361,000
Unrealized gain	<u>88,000</u>	<u>84,000</u>
Balance at end of year	<u>\$ 533,000</u>	<u>\$ 445,000</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, 2022 and 2021, management revalued the gift annuity liability through an adjustment of \$12,384 and \$12,346, 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 \$40,310 and \$39,656 for the years ended March 31, 2022 and 2021, respectively, which is included in occupancy on the statements of functional expenses.

Future annual minimum base lease payments are as follows:

Year ending March 31,	Amount
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 one donor comprised 19% of total support and revenues for the year ended March 31, 2022. There were no concentrations of revenue for the year ended March 31, 2021. Receivables from three and two sources comprised 80% and 78% of total accounts, grants and pledges receivable at March 31, 2022 and 2021, respectively.

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, 2022 and 2021 was \$3,443 and \$255, respectively. These amounts are included in advertising and public relations on the statements of functional expenses.

USS CONSTITUTION MUSEUM, INC.

Notes to Financial Statements

18. Special Events

Special events revenue consisted of the following components for the years ended March 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Special event sponsorships and contributions	\$ 353,891	\$ 293,698
Special event ticket sales	-	2,200
	<u>\$ 353,891</u>	<u>\$ 295,898</u>

19. Paycheck Protection Program Loan

The Museum received a Paycheck Protection Program (“PPP”) loan for \$350,000 on April 1, 2021. Under the loan agreement, all or a portion of the loan and accrued interest was 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 grants revenue.

The loan bore 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 December 2021, the Museum received full forgiveness of the PPP loan and accrued interest from the Small Business Administration.

20. New Museum Project

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.

21. Uncertainty Regarding the Impact of COVID-19

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Management is actively monitoring the global situation and its effects on the Museum's industry, financial condition, liquidity, and operations. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Museum is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity, and the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.