

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020
(With Summarized Financial Information for the year ended June 30, 2019)

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Independence Seaport Museum and Affiliate

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Independence Seaport Museum and Affiliate (a nonprofit Museum), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Independence Seaport Museum and Affiliate as of June 30, 2020, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Independence Seaport Museum and Affiliate's 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 15, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Marcum LLP

Philadelphia, PA
December 17, 2020

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2020

(With Summarized Financial Information as of June 30, 2019)

	2020	2019
Assets		
Cash and cash equivalents	\$ 489,610	\$ 604,781
Grants and other receivables	49,050	170,725
Investments	18,903,674	20,453,918
Prepaid expenses and other current assets	30,739	33,446
Collections (Note 1)	--	--
Property and equipment, net	5,241,940	6,285,790
Other assets	91,065	89,193
Total Assets	<u>\$ 24,806,078</u>	<u>\$ 27,637,853</u>
Liabilities		
Accounts payable and accrued expenses	\$ 121,775	\$ 181,175
Deferred revenue	66,287	44,989
Deferred rent obligation	269,500	346,500
Long-term debt	960,327	521,492
Total Liabilities	<u>1,417,889</u>	<u>1,094,156</u>
Net Assets		
Without donor restrictions		
General	4,254,000	5,743,998
Board designated	18,910,889	20,439,460
Total without donor restrictions	<u>23,164,889</u>	<u>26,183,458</u>
With Donor Restrictions	<u>223,300</u>	<u>360,239</u>
Total Net Assets	<u>23,388,189</u>	<u>26,543,697</u>
Total Liabilities and Net Assets	<u>\$ 24,806,078</u>	<u>\$ 27,637,853</u>

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

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2020

(With Summarized Financial Information for the year ended June 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenue, Support and Other Income				
Contributions and grants	\$ 309,482	\$ 566,418	\$ 875,900	\$ 2,077,573
Museum admissions	309,496	--	309,496	530,828
Memberships	37,224	--	37,224	49,697
Boatshop and docks	124,064	--	124,064	194,421
Education programs	103,394	--	103,394	133,487
Facilities rental	92,601	--	92,601	167,284
Special events, net of costs of direct benefits to donors of \$5,892 in 2020 and \$11,404 in 2019	(892)	--	(892)	23,301
Other income	5,640	--	5,640	11,969
Net assets released from restrictions	703,357	(703,357)	--	--
Total Revenue, Support and Other Income	1,684,366	(136,939)	1,547,427	3,188,560
Functional Expenses				
Program services	4,100,502	--	4,100,502	4,977,987
Supporting services				
Management and general	412,995	--	412,995	464,253
Fundraising	342,750	--	342,750	345,820
Total Expenses	4,856,247	--	4,856,247	5,788,060
Change in Net Assets From Operating Activities	(3,171,881)	(136,939)	(3,308,820)	(2,599,500)
Investment Income, Net	176,180	--	176,180	1,191,928
Other Income (Expense), Net				
Change in cash surrender value of life insurance	1,872	--	1,872	4,735
Retail and auxiliary activities	(6,421)	--	(6,421)	(12,188)
Interest expense	(18,319)	--	(18,319)	(29,105)
Total Other Income (Expense), Net	(22,868)	--	(22,868)	(36,558)
CHANGE IN NET ASSETS	(3,018,569)	(136,939)	(3,155,508)	(1,444,130)
Net Assets - Beginning of Year	26,183,458	360,239	26,543,697	27,987,827
Net Assets - End of Year	\$ 23,164,889	\$ 223,300	\$ 23,388,189	\$ 26,543,697

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

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2020

(With Summarized Financial Information for the year ended June 30, 2019)

	2020	2019
Cash Flows Used In Operating Activities		
Change in net assets	\$ (3,155,508)	\$ (1,444,130)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,192,001	1,030,302
Net realized and unrealized losses (gains) on investments	277,720	(434,336)
Deaccessions	--	(2,320)
Increase in cash surrender value of life insurance	(1,872)	(4,735)
Changes in operating assets and liabilities:		
Grants and other receivables	121,675	(88,778)
Prepaid expenses and other assets	2,707	(10,068)
Accounts payable and accrued expenses	(59,400)	(959,589)
Deferred rent obligation	(77,000)	(57,000)
Deferred revenue	21,298	5,614
Net Cash Used In Operating Activities	(1,678,379)	(1,965,040)
Cash Flows Provided By Investing Activities		
Purchase of property and equipment	(148,151)	(1,881,418)
Purchase of investments	(2,647,424)	(2,352,000)
Proceeds from sale of art	--	2,320
Proceeds from sale of investments	3,961,218	5,104,454
Net Cash Provided By Investing Activities	1,165,643	873,356
Cash Flows Provided By (Used In) Financing Activities		
Proceeds from issuance of PPP loan	498,220	--
Repayments of long-term debt	(59,385)	(756,980)
Net Cash Provided By (Used In) Financing Activities	438,835	(756,980)
Net Decrease in Cash and Cash Equivalents	(73,901)	(1,848,664)
Cash and Cash Equivalents - Beginning of year	680,111	2,528,775
Cash and Cash Equivalents - End of year	<u>\$ 606,210</u>	<u>\$ 680,111</u>
Cash and Cash Equivalents Reported on the Statement of Financial Position		
Cash and cash equivalents	\$ 489,610	\$ 604,781
Cash and cash equivalents held within investments	116,600	75,330
Total Cash and Cash Equivalents	<u>\$ 606,210</u>	<u>\$ 680,111</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the years for:		
Interest	<u>\$ 18,319</u>	<u>\$ 29,105</u>

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

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

(With Summarized Financial Information for the year ended June 30, 2019)

	Program Services	Management and General	Fundraising	2020 Totals	2019 Totals
Compensation	\$ 1,887,780	\$ 235,488	\$ 234,257	\$ 2,357,525	\$ 2,964,991
Program supplies and materials	120,583	--	--	120,583	151,974
Grants	51,749	--	500	52,249	173,217
Professional services	185,526	45,867	40,971	272,364	417,697
Occupancy	339,088	29,540	11,282	379,910	407,131
Office supplies and other expenses	105,158	17,668	16,337	139,163	188,021
Depreciation and amortization	1,118,412	51,661	21,928	1,192,001	1,030,302
Advertising and promotion	42,432	10,523	4,122	57,077	179,612
Insurance	129,387	12,786	7,393	149,566	142,828
Exhibit maintenance and development	49,911	--	--	49,911	83,034
Museum events	59,536	5,881	2,831	68,248	15,315
Staff development, travel and entertainment	10,940	3,581	3,129	17,650	33,938
Operating expenses	<u>4,100,502</u>	<u>412,995</u>	<u>342,750</u>	<u>4,856,247</u>	<u>5,788,060</u>
Costs of direct benefits	--	--	5,892	5,892	11,404
Cost of goods sold	4,674	--	--	4,674	7,618
Interest expense	--	18,319	--	18,319	29,105
Total functional expenses	<u>\$ 4,105,176</u>	<u>\$ 431,314</u>	<u>\$ 348,642</u>	<u>\$ 4,885,132</u>	<u>\$ 5,836,187</u>

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

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES

The mission of Independence Seaport Museum (the “Museum”) is to increase the awareness, knowledge and experience of the Philadelphia region's waterways. The Museum increases the awareness, knowledge, and experience of our waterways by highlighting the important role of the Delaware River through direct contact with our collections, exhibits, and the water. Our boating programs provide direct access to recreation and the scientific study of the water from the standpoints of biology and physics; art is used to represent the importance of competing uses of the river. Through our historic ships, we provide the ideal platform for examining the interaction of society and water over our nation’s history. Our educational student outreach programs ensure generational awareness of the Museum’s mission.

The Museum will be the premier regional institution to tell the story of the Delaware River waterfront and watershed. The Museum will take a leadership role in the future of the Delaware River Watershed including awareness of and advocacy for our valuable natural resources and the economic development of the region. As a good community steward, the Museum will provide an education and career awareness "Ladder of Opportunity" to students in our region and through them generational awareness of our water resources to all of our citizens.

Our goal is to create understanding of the historical, economic, and environmental importance of the Delaware River Watershed.

The Museum is home to one of the largest maritime art and artifact collections in North America, documenting the local and regional history of the Ports of Philadelphia, and two National Historic Landmark ships, Cruiser Olympia, Admiral Dewey’s flagship at the Battle of Manila Bay, and World War II Submarine Becuna. The Museum is the premier, year-round, family-friendly destination that has become a key component of Philadelphia's waterfront renaissance on Penn's Landing.

The Museum is governed by a board referred to as the Board of Port Wardens (the “Board”). It is a nationally prominent, non-profit, educational institution that typically serves over 100,000 visitors annually and is accredited by the American Association of Museums.

Flagship Olympia Foundation (the “Foundation”) is an affiliated not-for-profit organization formed in March 2016. The Museum has control over and exercises general supervision over its operations. The Foundation is dedicated to providing restoration, preservation and improvement of the USS Flagship Olympia in collaboration with the Museum.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Museum and the Foundation. Any inter-Museum transactions and balances are eliminated in consolidation.

BASIS OF PRESENTATION

The Museum and the Foundation prepare their financial statements in accordance with generally accepted accounting principles ("GAAP") in the United States of America, utilizing the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses when the related liability for goods and services is incurred, regardless of the timing of the related cash flows.

Net assets and the changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Museum at the discretion of the Museum's management and the Board, including amounts designated by the Board to act as quasi-endowments.

Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they 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 that the funds be maintained in perpetuity, with the earnings used for purposes designated by the donor.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash balances, money market funds and highly liquid investments purchased with an initial maturity of three months or less unless they are part of an investment brokerage account. The Museum has elected to include in investments cash held in brokerage accounts.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS

The Board determines the proper classification of investments in marketable securities at the time of purchase and reevaluates such designations at the statement of financial position date. Investments are reported at their fair value in the statement of financial position. Fair value is defined as 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. All realized and unrealized gains and losses are recognized in the statement of activities and changes in net assets unless there are donor restrictions on the use of the income. The fair value of the limited partnership investment is determined based on the net asset value ("NAV") provided by the external investment manager of the underlying funds as a practical expedient to determine the fair value.

Investment securities are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in value of investments, it is at least possible that changes in risks in the near term could materially affect investment balances.

REVENUE RECOGNITION

Revenues from admissions, boat workshop, education programs and facilities rental are recognized when the service is performed.

GRANTS AND OTHER RECEIVABLES

Grants and other receivables consists of amounts due from donors as well as from customers for facility rentals, group bookings and other miscellaneous receivables and are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a charge to expense and a credit to a valuation allowance based on experience, third-party contracts and other circumstances which may affect the ability of debtors or donors to meet their obligations. At June 30, 2020, management determined all grants and accounts receivable, totaling \$36,740 and \$3,810, respectively, were fully collectible.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONTRIBUTIONS AND PROMISES TO GIVE

Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. Unconditional promises to give are recognized as revenue in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), net assets with donor restrictions are released to net assets without donor restrictions.

Unconditional promise to give (i.e., a promise dependent on passage of time or demand by the promise for performance) with payments due in future periods are required to be recorded as restricted support unless explicit donor stipulations or circumstances surrounding the receipt of a promise make it clear that the donor intended their contribution to be used to support activities of the current period. Unconditional promises to give cash in future years generally increase net assets with donor restrictions and are included in grants and other receivables in the accompanying consolidated statement of financial position. As of June 30, 2020, promises to give totaling \$8,500 were expected to be collected in the next fiscal year, and were reported with grants and other receivables in these financial statements.

DEFERRED REVENUE

Deferred revenue consists of funds received in advance for events that have not yet taken place.

IN-KIND CONTRIBUTIONS

Donated services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Donated services that met the criteria for recognition are recorded as in-kind contributions in the statement of activities and changes in net assets. Donated investments are valued at fair market value at the time of the donation. Unpaid volunteers have made contributions of time to the Museum. The value of these contributed services is not included in the financial statements since they did not meet the criteria for financial statement recognition under GAAP.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT, NET

Property and equipment are stated at cost, except for donated assets, which are recorded at fair value when received. Expenditures for improvements that materially increase the estimated useful lives of the assets are capitalized; expenditures for repairs and maintenance are expensed. The Museum capitalizes the costs of constructing exhibits. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Building improvements are amortized over the lesser of the lease term or the estimated useful life of the improvement. Gains or losses on the disposition of assets are recognized in the statement of activities and changes in net assets.

Management periodically evaluates its property and equipment assets for indications that the value has been impaired. Based on this assessment, management believes that impairment in value has not occurred as of June 30, 2020.

OTHER ASSETS

The Museum has been assigned the rights to a \$2,000,000 variable whole life insurance policy on the life of a former Museum President. If the policy is terminated early, the Museum is entitled to a refund of the lesser of all cumulative premiums paid by the Museum or the cash surrender value of the policy. Therefore, on an annual basis, the Museum adjusts its investment in the policy to the lesser of these two amounts. Upon the death of the former Museum President, the Museum is entitled to the entire death benefit proceeds. As of June 30, 2020, the cash surrender value of the policy amounted to \$91,065.

COLLECTIONS

The Museum's collections consist of historical artifacts, antiques, and other irreplaceable items that are maintained for public exhibition, education, and research in furtherance of public service rather than for financial gain. Collections are the most valuable assets of the Museum and are protected, kept unencumbered, cared for and preserved. The collections, which were acquired primarily through donation, are not recognized or capitalized as assets in the statement of financial position. Collection items purchased during the year are recorded as decreases in net assets without donor restriction in the year in which the items are acquired, or as decreases in net assets with donor restriction if the assets used to purchase the items are restricted by donors. The Museum records proceeds from deaccessions and insurance recoveries as increases in the consolidated statement of activities and changes in net assets.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COLLECTIONS (CONTINUED)

The Museum's policy, as approved by the Board, designates proceeds from the sale of collection items to be used only for acquisition of additional items for collections or for the direct care of collections. The Museum considers direct care to include activities which enhance the life, usefulness or quality of collections. There was no sale of collections for year ended June 30, 2020.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing programs and supporting services have been summarized on a functional basis in the accompanying consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs related to the operation and maintenance of building, including compensation and depreciation, are allocated to program and supporting activities based upon square footage. Administrative compensation is allocated based on level of effort and headcount.

ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising costs totaled \$57,077 for the year ended June 30, 2020.

INCOME TAXES

The Museum and the Foundation are generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code ("the Code"), and are not private foundations under Section 509(a) of the Code. Net income resulting from sales of merchandise from the Museum store is subject to the Unrelated Business Income Tax (UBIT) provisions of the Code. As of June 30, 2019, the Museum had net operating losses available to offset future taxable income of \$3,325.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

For the year ended June 30, 2020, the Museum is expected to have net income that will be fully absorbed the existing net operating losses and does not anticipate any UBIT. Therefore, no provision for federal or state income taxes is included in the accompanying financial statements.

Management has analyzed the tax positions taken and has concluded that as of June 30, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Museum's tax returns are subject to examination by federal and state taxing authorities. However, there are no examinations currently in progress or pending.

PRIOR YEAR SUMMARIZED FINANCIAL INFORMATION

The accompanying consolidated financial statements include certain prior year summarized comparative information in total, but not by net asset class. Accordingly, such information should be read in conjunction with the Museum's consolidated financial statements for the year ended June 30, 2019, from which the summarized information was derived.

NEW ACCOUNTING PRONOUNCEMENT

In May 2014, the FASB issued Accounting Standards Update ("ASU") ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a single comprehensive revenue recognition framework and supersedes existing revenue recognition guidance. Included in the new principles based revenue recognition model are changes to the basis for deciding the timing for revenue recognition. In addition, the standard expands and improves revenue disclosures. ASU 2014-09 was effective for annual or interim reporting periods beginning after December 15, 2018. In June 2020, the FASB issued ASU 2020-05 which allows any organization who has not yet adopted ASC 606 and issued their financial statements to defer the implementation of ASC 606 for one year. The Company has elected to defer the implementation of ASC 606 until July 1, 2021.

RECLASSIFICATION

Certain amounts reported in prior years in the financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the reported results of operations.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENT

The Museum categorizes its investments utilizing a three-tier hierarchy based on transparency of inputs to the valuation of an asset or liability.

Level 1 Fair Value Measurements

Observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets. Mutual funds are valued at the daily closing price as reported by the fund and are actively traded. The mutual funds are open-ended and are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price.

Level 2 Fair Value Measurements

Observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, based upon quoted prices within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability. As of June 30, 2020, the Museum does not have any financial assets or liabilities that were measured using Level 2 inputs.

Level 3 Fair Value Measurements

Inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability. As of June 30, 2020, the Museum does not have any financial assets or liabilities that were measured using Level 3 inputs.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at June 30, 2020. The following tables sets forth the Museum's fair value measurements on a recurring basis:

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENT (CONTINUED)

	Level 1	Level 2	Level 3	Total
Equity mutual funds	\$ 8,642,329	\$ -	\$ -	\$ 8,642,329
Fixed income mutual funds	5,496,947	-	-	5,496,947
Money market funds	116,600	-	-	116,600
Limited partnership ⁽¹⁾	-	-	-	4,647,798
	<u>\$ 14,255,876</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,903,674</u>

- ⁽¹⁾ Investments that are measured at fair value using NAV as a practical expedient are not classified within the fair value hierarchy. The practical expedient is not used if it is probable the investments will be sold for an amount different from the NAV. The fair value amounts permit reconciliation of investments in the fair value hierarchy table to amounts presented in the accompanying consolidated statement of financial position.

The fair value of the investment in a limited partnership (which is comprised entirely of an investment portfolio) is increased by earnings and decreased by losses within the limited partnership and distributions from the limited partnership due to there being no active market for these investment, which approximates fair value. The partnership principally invests in domestic and foreign publicly-traded equities. In accordance with the partnership agreement, the partnership will continue until December 31, 2049, unless dissolved earlier by the general partner. Redemptions may be made quarterly and as of June 30, 2020, there are no unfunded commitments.

NOTE 3 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30, 2020:

Building improvements	\$ 16,804,501
Computers and equipment	1,017,603
Furniture and Fixtures	558,340
Vehicles	49,560
Exhibits	6,987,548
	<u>25,417,552</u>
Less: accumulated depreciation and amortization	<u>(20,175,612)</u>
Property and equipment, net	<u>\$ 5,241,940</u>

Depreciation expense for the year ended June 30, 2020 totaled \$1,192,001.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 4 - LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2020:

Note payable to the City of Philadelphia, collateralized by a leasehold mortgage on the Museum's interest in the leased premises and related improvements. Monthly installments of \$13,310 were due through June 2018, including interest at a 3% per annum. In July 2018, the Museum modified its note payable with the City of Philadelphia by making a principal payment of \$700,000 and modifying the monthly payment amount to \$2,415 until maturity of July 1, 2038.

\$ 403,654

On May 1, 2018, a credit line loan with a balance of \$125,000 was converted to a term note requiring principal payments of \$3,125 plus interest through May 2022. Interest is paid at a rate of prime plus 1.0% (4.25% as of June 30, 2020). The debt is collateralized by substantially all assets of the Museum.

43,750

Note payable for the purchase of a vehicle, due in monthly installments of \$500 including principal and interest at a rate of 3.99%, maturing March 2023.

14,703

Note payable with Republic Bank under the Paycheck Protection Plan Loan ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels within an eight or twenty-four week period from the time the funds are received. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first ten months after the last day of the covered period.

498,220

Total long term debt

\$ 960,327

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 4 - LONG-TERM DEBT (CONTINUED)

Future scheduled maturities of long-term debt are as follows:

For the Year Ending June 30,	Amount
2021	\$ 60,119
2022	257,961
2023	270,712
2024	39,468
Thereafter	332,067
Total	<u>\$ 960,327</u>

The Museum intends to apply for PPP Loan forgiveness before the scheduled maturity date of the loan. Interest expense totaled \$18,319 for the year ended June 30, 2020

NOTE 5 - DEFERRED RENT OBLIGATION

The Museum amortizes its lease on its Penn's Landing facility in accordance with GAAP which requires the total rent obligation to be expensed using the straight line method over the lease term. The difference between the amount paid and the rent expense incurred as of June 30, 2020 totaled \$269,500 and is shown as a deferred rent obligation in the accompanying consolidated financial statements.

NOTE 6 - ENDOWMENT FUNDS

Certain net assets without donor restriction have been designated by the Board as endowment funds. The general fund has been established by the Museum to support and promote the growth, progress and general welfare of the Museum. The boatshop fund has been established by the Museum to support the boat workshop. During the year ended June 30, 2020, the Museum had the following endowment-related activities:

	General	Boatshop	Flagship	Total
Beginning balance	\$ 17,817,487	\$ 2,621,973	\$ -	\$ 20,439,460
Reclassification to endowment	2,490		11,969	14,459
Investment return, net	72,365	103,504	311	176,180
Contribution	3,005	-	111,000	114,005
Amounts appropriated for expenditure	(1,621,745)	(131,099)	(87,586)	(1,840,436)
Ending balance	<u>\$ 16,273,602</u>	<u>\$ 2,594,378</u>	<u>\$ 35,694</u>	<u>\$ 18,903,674</u>

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 6 - ENDOWMENT FUNDS (CONTINUED)

RETURN OBJECTIVES AND RISK PARAMETERS

The Museum has an established investment committee which has adopted an investment policy for the board designated endowment funds assets that attempts to provide long-term capital growth.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

The Museum relies on a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) to satisfy its long-term rate-of-return objectives. The Museum targets a diversified asset allocation that currently invests in balanced or index mutual funds with low management fees to achieve its long-term return objectives within prudent risk constraints. Additionally, all investment gains and income are reinvested.

SPENDING POLICY

The Museum established a three-year average spending rate of 5.5% of the market value of the general fund for general operations of the Museum and 5% of the market value of the boatshop fund for the boatshop operations of the Museum.

NOTE 7 - NET ASSETS

WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions of \$18,910,889 as of June 30, 2020 have been designated by the Board, which include \$18,903,674 for the endowment fund (See Note 6) and \$7,215 for PhillyMakerFaire.

WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following purposes as of June 30, 2020:

Education	\$ 113,798
Exhibits	41,193
Other programs and projects	<u>68,309</u>
Total net assets with donor restrictions	<u>\$ 223,300</u>

Net assets released from donor restrictions totaling \$703,357 for the year ended June 30, 2020 related principally to education programs, exhibit construction and completion.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 8 - RETIREMENT PLAN

The Museum has a defined contribution retirement plan for eligible employees. The Museum matches the employee's contribution up to 6.5% of salary. The Museum's contributions to the plan were \$103,638 for the year ended June 30, 2020.

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

The Museum maintains cash with multiple financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times during the year, cash balances may exceed FDIC limits. The Museum has not experienced any losses on such accounts, and believes that it is not exposed to a significant risk on its cash balances. The money market accounts maintained in the Museum's brokerage accounts are not covered by FDIC and amount to approximately \$116,600 as of June 30, 2020.

The Securities Investors Protection Corporation ("SIPC"), a non-government entity, replaces missing stocks and other securities in customer accounts held by its members up to \$500,000, including up to \$100,000 in cash, if a member brokerage or bank brokerage subsidiary fails. The Museum maintains its investments in brokerage accounts that are covered by SIPC. At June 30, 2020, the Museum did not have un-invested cash with its investment institutions.

NOTE 10 - COMMITMENTS

The Museum leases its Penn's Landing facility under an operating lease agreement with the Delaware River Water Front Corporation, formerly Penn's Landing Corporation. The lease term extends to December 2023, with rent increases scheduled every five years.

Provided there are no events of default, the lease automatically renews every five years after the initial term, but in no event, shall any additional terms extend beyond April 30, 2075. There are renewal options available through April 2075 and the opportunity to renew for another 30 years based upon certain conditions being met. As of June 30, 2020, the future minimum lease commitments, excluding potential renewal options, are as follows:

Year Ending June 30,	Amount
2021	\$ 190,000
2022	190,000
2023	190,000
2024	95,000
Total	<u>\$ 665,000</u>

Rent expense related to these leases was \$113,000 for the year ended June 30, 2020.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 11 - CONTINGENCIES

In 2014, the Museum adopted an ambitious and comprehensive long-term strategic plan, including major fundraising and earned revenue raising goals, designed to replenish the Museum's endowment, provide operating capital, fund major renovations to the USS Olympia, and provide capital to enhance or possibly rebuild the Museum itself. Successful implementation and execution of this plan is considered vital to the sustainability of exhibits like the USS Olympia. In 2016, the Foundation was formed with the specific mission of funding the restoration, preservation and improvement of the USS Olympia.

NOTE 12 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Museum regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. The Museum's financial assets available within one year of the statement of financial position date for general expenditures at June 30, 2020, were as follows:

Cash and cash equivalents	\$ 489,610
Grants and other receivables	49,050
Investments	<u>18,903,674</u>
Total financial assets	19,442,334
Less: Amounts requiring approval by the Board for expenditure	\$ (18,903,674)
Plus: Approved endowment draw for next year	<u>2,000,000</u>
Total financial assets available within one year for general expenditure	<u>\$ 2,538,660</u>

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year. The grants and other receivables are subject to implied time restrictions but are expected to be collected within one year. The Museum's goal is to maintain financial assets, principally the investments, as a perpetual quasi-endowment source of annual unrestricted funding. From time to time, the Board may at its discretion approve additional withdrawals from the investment accounts in excess of its spending policy to fund Museum operations.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 13 - RISK MANAGEMENT

The global outbreak of COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the U.S. Government in March 2020 and has negatively impacted the U.S. and global economy, disrupted global supply chains, resulted in significant travel and transport restrictions, including mandated closures and orders to “shelter-in-place,” and created significant disruption of the financial markets. The extent of the impact of the COVID-19 pandemic on the Museum’s operational and financial performance will depend on future developments, including the duration and spread of the pandemic and related actions taken by the U.S. government, state and local government officials, and international governments to prevent disease spread, all of which are uncertain and cannot be predicted.

NOTE 14 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 17, 2020, the date the financial statements were available to be issued and identified no events requiring recognition or disclosure in the financial statements.