

**INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2019**  
**(With Summarized Financial Information for the year ended June 30, 2018)**

# 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, 2019, 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, 2019, 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 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 14, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Marcum LLP*

Philadelphia, PA  
May 15, 2020

# INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2019

(With Summarized Financial Information as of June 30, 2018)

	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 680,111	\$ 2,528,775
Grants and other receivables	170,725	81,947
Investments	20,378,588	22,696,704
Prepaid expenses and other assets	122,639	107,836
Collections (Note 1)	--	--
Property and equipment, net	<u>6,285,790</u>	<u>5,434,676</u>
<b>Total Assets</b>	<u>\$ 27,637,853</u>	<u>\$ 30,849,938</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses	181,175	1,140,764
Deferred revenue	44,989	39,375
Deferred rent obligation	346,500	403,500
Long-term debt	<u>521,492</u>	<u>1,278,472</u>
<b>Total Liabilities</b>	<u>1,094,156</u>	<u>2,862,111</u>
<b>Net Assets</b>		
Without donor restrictions		
General	5,743,998	2,440,183
Board designated	<u>20,439,460</u>	<u>23,844,633</u>
Total without donor restrictions	<u>26,183,458</u>	<u>26,284,816</u>
With Donor Restrictions	<u>360,239</u>	<u>1,703,011</u>
<b>Total Net Assets</b>	<u>26,543,697</u>	<u>27,987,827</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 27,637,853</u>	<u>\$ 30,849,938</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, 2019

(With Summarized Financial Information for the year ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
<b>Revenue, Support and Other Income</b>				
Contributions and grants	\$ 1,301,697	\$ 775,876	\$ 2,077,573	\$ 4,414,293
Museum admissions	530,828	--	530,828	507,174
Memberships	49,697	--	49,697	54,515
Boatshop and docks	194,421	--	194,421	276,327
Education programs	133,487	--	133,487	133,333
Facilities rental	167,284	--	167,284	298,555
Special events, net of costs of direct benefits to donors of \$11,404 in 2019 and \$55,515 in 2018	18,436	4,865	23,301	120,596
Other income	12,810	--	12,810	25,833
Net assets released from program restrictions	2,123,513	(2,123,513)	-	-
<b>Total Revenue, Support and Other Income</b>	4,532,173	(1,342,772)	3,189,401	5,830,626
<b>Functional Expenses</b>				
Program services	4,933,355	--	4,933,355	4,954,622
Supporting services				
Management and general	544,933	--	544,933	556,756
Fundraising	314,348	--	314,348	378,134
<b>Total Expenses</b>	5,792,637	--	5,792,637	5,889,512
<b>Change in Net Assets From Operating Activities</b>	(1,260,464)	(1,342,772)	(2,603,236)	(58,886)
<b>Investment Income, Net</b>	1,191,087	--	1,191,087	1,837,681
<b>Other Income (Expense), Net</b>				
Change in cash surrender value of life insurance	4,735	--	4,735	8,708
Retail and auxiliary activities	(7,611)	--	(7,611)	37,092
Interest expense	(29,105)	--	(29,105)	(41,802)
<b>Total Other Income (Expense), Net</b>	(31,981)	--	(31,981)	3,998
<b>CHANGE IN NET ASSETS</b>	(101,358)	(1,342,772)	(1,444,130)	1,782,793
<b>Net Assets - Beginning of Year</b>	26,284,816	1,703,011	27,987,827	26,205,034
<b>Net Assets - End of Year</b>	\$ 26,183,458	\$ 360,239	\$ 26,543,697	\$27,987,827

*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, 2019

(With Summarized Financial Information for the year ended June 30, 2018)

	2019	2018
<b>Cash Flows Provided By Operating Activities</b>		
Change in net assets	\$ (1,444,130)	\$ 1,782,793
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,030,302	746,733
Net realized and unrealized gain on investments	(434,336)	(1,176,889)
Deaccessions	(2,320)	(18,485)
Increase in cash surrender value of life insurance	(4,735)	(8,708)
Changes in operating assets and liabilities:		
Grants and other receivables	(88,778)	1,029,888
Prepaid expenses and other assets	(10,068)	111,173
Accounts payable and accrued expenses	(959,589)	679,736
Deferred rent obligation	(57,000)	(37,000)
Deferred revenue	5,614	(12,901)
<b>Net Cash Provided (Used) By Operating Activities</b>	(1,965,040)	3,096,340
<b>Cash Flows Provided (Used) In Investing Activities</b>		
Purchase of property and equipment	(1,881,418)	(2,549,221)
Purchase of investments	(2,352,000)	(2,125,772)
Proceeds from sale of art	2,320	18,485
Proceeds from sale of investments	5,104,454	4,091,393
<b>Net Cash Provided (Used) In Investing Activities</b>	873,356	(565,115)
<b>Cash Flows Used In Financing Activities</b>		
Repayments of long-term debt	(756,980)	(19,916)
<b>Net Increase in Cash and Cash Equivalents</b>	(1,848,664)	2,511,309
<b>Cash and Cash Equivalents - Beginning of year</b>	2,528,775	17,466
<b>Cash and Cash Equivalents - End of year</b>	\$ 680,111	\$ 2,528,775
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the years for:		
Interest	\$ 29,105	\$ 41,802
<b>Schedule of Noncash Investing and Financing Activities:</b>		
Purchases of property and equipment via long term debt	\$ --	\$ 27,112
Refinance of line of credit to long term debt	\$ --	\$ 125,000

*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, 2019**

(With Summarized Financial Information for the year ended June 30, 2018)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2019 Totals</u>	<u>2018 Totals</u>
Compensation	\$ 2,418,677	\$ 318,208	\$ 228,106	\$ 2,964,991	\$ 2,836,973
Program supplies and materials	146,219	--	--	146,219	389,855
Grants	172,392	75	750	173,217	306,415
Professional services	315,762	93,366	9,881	419,010	295,883
Occupancy	365,215	29,670	12,246	407,131	494,859
Office supplies and other expenses	142,851	35,507	19,766	198,124	217,886
Depreciation and amortization	958,922	50,115	21,265	1,030,302	746,734
Advertising and promotion	166,124	4,699	8,789	179,612	165,206
Insurance	125,156	10,739	6,934	142,828	145,337
Exhibit maintenance and development	83,034	--	--	83,034	203,715
Museum events	9,415	--	4,588	14,003	20,402
Staff development, travel and entertainment	29,588	2,555	2,024	34,166	66,242
<b>Operating expenses</b>	<b>4,933,355</b>	<b>544,933</b>	<b>314,348</b>	<b>5,792,637</b>	<b>5,889,507</b>
Costs of direct benefits	--	--	11,404	11,404	55,515
Cost of goods sold	7,618	--	-	7,618	20,492
Interest expense	--	29,105	--	29,105	41,802
<b>Total functional expenses</b>	<b>\$ 4,940,973</b>	<b>\$ 574,038</b>	<b>\$ 325,752</b>	<b>\$ 5,840,764</b>	<b>\$ 6,007,316</b>

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, 2019

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

#### *NATURE OF ACTIVITIES*

The mission of Independence Seaport Museum (the “Museum”) is to deepen the understanding, appreciation and experience of the Philadelphia region's waterways. We connect our community and visitors to our rivers and watershed through exhibitions and programs featuring history, science and art, plus experiences on the water. Visitors can learn about what is on the river, in the river and around the river in the new high-tech interactive exhibition, *River Alive!*; climb aboard the life-size model pirate ship Diligence; enjoy the Delaware River with seasonal boat rentals; observe live demonstrations in the Museum’s boatbuilding workshop; and get hands on with STEAM (science, technology, engineering, art and math) learning in the Citizen Science Lab and MakerSpace. 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 serves 110,000 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.

#### *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.

# INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

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.

#### *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.

# INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

#### *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, 2019, management determined all accounts receivable were fully collectible.

#### *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, 2019, all promises to give were expected to be collected in the next fiscal year.

Grants receivable primarily consist of amounts due from private foundations and governmental agencies under the terms of the grant award which have not been collected as of June 30, 2019. Grant revenue is included with contributions in the statement of activities and changes in net assets. Management has determined that no allowance for uncollectible accounts is necessary as all amounts are expected to be collected in the next fiscal year.

# INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

#### *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.

#### *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, 2019.

#### *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, 2019, the cash surrender value of the policy amounted to \$89,193.

# INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

#### *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.

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. For the year ended June 30, 2019, the Museum recognized \$2,320 from the sale of collections which is included in retail and auxiliary activities in the accompanying consolidated statement of activities and changes in net assets.

#### *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.

# INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

#### *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 rental activities and from operating an outdoor summer tavern is subject to the Unrelated Business Income Tax provisions of the Code. However, the Museum incurred a net loss from these activities for the year ended June 30, 2019, after all direct and indirect expenses were incurred. 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, 2019, 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.

#### *ADVERTISING COSTS*

Advertising costs are expensed as incurred. Advertising costs totaled \$179,612 for the year ended June 30, 2019.

#### *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, 2018, from which the summarized information was derived.

#### *NEW ACCOUNTING PRONOUNCEMENT*

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return for nonprofit organizations. The Museum has adjusted the presentation of these statements accordingly. The Museum has applied the ASU retrospectively to all periods presented and has determined there was no significant impact to these consolidated financial statements.

# INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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### 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, 2019, 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.

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, 2019. The following tables sets forth the Museum’s fair value measurements on a recurring basis:

	Level 1	Level 2	Level 3	Total
Equity mutual funds	\$ 8,853,123	\$ -	\$ -	\$ 8,853,123
Fixed income mutual funds	5,865,804	-	-	5,865,804
Limited partnership <sup>(1)</sup>	-	-	-	5,659,662
	<u>\$ 14,718,927</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,378,589</u>

<sup>(1)</sup> 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.

# INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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### NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENT (CONTINUED)

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, 2019, there are no unfunded commitments.

### NOTE 3 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30, 2019:

Building improvements	\$ 16,773,570
Computers and equipment	987,373
Furniture and Fixtures	558,340
Vehicles	49,560
Other depreciable property	6,900,561
	<hr/>
	25,269,404
Less: accumulated depreciation and amortization	(18,983,611)
	<hr/>
Property and equipment, net	<u>\$ 6,285,793</u>

Depreciation expense for the year ended June 30, 2019 totaled \$1,030,302.

### NOTE 4 - 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, 2019 totaled \$346,500 and is shown as a deferred rent obligation in the accompanying consolidated financial statements.



# INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2019

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#### NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2019:

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. \$ 420,243

The Museum had a \$150,000 non-revolving line-of-credit with a bank that expired May 1, 2018 in which the unpaid balance of \$125,000 at May 1, 2018 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% (6.5% as of June 30, 2019). The debt is collateralized by substantially all assets of the Museum. \$ 81,250

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. \$ 20,000

Total long term debt \$521,493

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

<u>For the Year Ending June 30,</u>	<u>Amount</u>
2020	59,396
2021	60,116
2022	29,611
2023	21,121
Thereafter	351,249
Total	<u>\$ 521,493</u>

Interest expense totaled \$29,105 for the year ended June 30, 2019.

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### 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. The endowment fund balances include money market accounts balances that are reported as cash and cash equivalents. During the year ended June 30, 2019, the Museum had the following endowment-related activities:

	General	Boatshop	Total
Beginning balance	\$ 21,133,759	\$ 2,710,874	\$ 23,844,633
Investment return, net	1,043,387	147,699	1,191,086
Amounts appropriated for Expenditure	(4,359,659)	(236,600)	(4,596,259)
Ending balance	\$ 17,817,487	\$ 2,621,973	\$ 20,439,460

#### ***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.

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FOR THE YEAR ENDED JUNE 30, 2019

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### NOTE 7 - NET ASSETS

#### WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions of \$20,439,460 as of June 30, 2019 have been designated by the Board for the endowment fund (See Note 6).

#### WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following purposes as of June 30, 2019:

Education	\$ 302,894
Other exhibits	15,500
Other programs	<u>41,845</u>
Total net assets with donor restrictions	<u><u>\$ 360,239</u></u>

Net assets released from donor restrictions totaling \$2,123,513 for the year ended June 30, 2019 related principally to exhibit construction and completion.

### NOTE 8 - RETIREMENT PLAN

The Museum has a defined contribution retirement plan for eligible employees. The Museum contributes 1.5% of each eligible employee's salary and matches the employee's contribution up to 6.5% of salary. The Museum's contributions to the plan were \$152,118 for the year ended June 30, 2019.

### NOTE 9 - CONCENTRATIONS OF CREDIT RISK

The Museum maintains cash with one financial institution which is 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.

Included with cash and cash equivalents are money market accounts maintained in the Museum's brokerage accounts. The money market accounts are not covered by FDIC and amount to approximately \$63,362 as of June 30, 2019.

### 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.

# INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2019

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#### NOTE 10 – COMMITMENTS (CONTINUED)

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, 2019, the future minimum lease commitments, excluding potential renewal options, are as follows:

Year Ending June 30,	Amount
2020	\$ 190,000
2021	190,000
2022	190,000
2023	190,000
2024	95,000
Total	<u>\$ 855,000</u>

Rent expense related to these leases was \$113,000 for the year ended June 30, 2019.

#### 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

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, 2019, were as follows:

Cash and cash equivalents	\$ 680,111
Grants and other receivables	170,725
Investments	<u>20,378,588</u>
Total financial assets	<u>\$ 21,229,424</u>

# INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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### NOTE 12 – LIQUIDITY AND AVAILABILITY

Less: Amounts requiring approval by the Board for expenditure	\$ (20,439,460)
Plus: Approved endowment draw for next year	<u>1,500,000</u>
Total financial assets available within one year for general expenditure	<u>\$ 2,289,966</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.

### NOTE 13 - SUBSEQUENT EVENTS

Subsequent events have been evaluated for potential recognition or disclosure through May 15, 2020, the date the financial statements were available to be issued. In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of business across the country for non-essential services. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of closings. To date, the Museum has been able to continue or modify some of its other operations in a remote environment, however, at this point, the extent to which COVID-19 may impact the Museum's financial condition or its results of operations is uncertain. No other events requiring recognition or disclosure within the financial statements have been identified.