

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY
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 financial statements of the Independence Seaport Museum and Affiliate (a nonprofit Museum), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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, 2018, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidated schedule of functional expenses has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Marcum LLP

Philadelphia, PA
January 14, 2019

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

Assets

Current Assets

Cash and cash equivalents	\$ 2,528,775
Accounts receivable	29,749
Promises to give	2,498
Grants receivable	49,700
Investments	22,696,704
Inventory	13,287
Prepaid expenses	<u>10,091</u>

Total Current Assets 25,330,804

Property and Equipment, net 5,434,676

Other Assets 84,458

Total Assets \$ 30,849,938

Liabilities and Net Assets

Current Liabilities

Current portion of long-term debt	756,954
Accounts payable and accrued expenses	1,140,764
Deferred rent obligation, current	57,000
Deferred revenue	<u>39,375</u>

Total Current Liabilities 1,994,093

Long-Term Liabilities

Deferred rent obligation, net of current portion	346,500
Long-term debt, net of current portion	<u>521,518</u>

Total Long-Term Liabilities 868,018

Total Liabilities 2,862,111

Net Assets

Unrestricted	
General	2,440,183
Board designated	<u>23,844,633</u>
Total Unrestricted	26,284,816

Temporarily restricted 1,703,011

Total Net Assets 27,987,827

Total Liabilities and Net Assets \$ 30,849,938

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, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue, Support and Other Income			
Contributions and grants	1,424,439	2,989,854	\$ 4,414,293
Museum admissions	507,174	--	507,174
Memberships	54,515	--	54,515
Boatshop and docks	276,327	--	276,327
Education programs	133,333	--	133,333
Facilities rental	298,555	--	298,555
Special events, net of costs of direct benefits to donors of \$55,515	120,596	--	120,596
Other income	25,833	--	25,833
Net assets released from restrictions	2,787,578	(2,787,578)	-
Total Revenue, Support and Other Income	5,628,350	202,276	5,830,626
Functional Expenses			
Program services	4,973,061	--	4,973,061
Supporting services			
Management and general	558,126	--	558,126
Fundraising	378,812	--	378,812
Total Expenses	5,909,999	--	5,909,999
Change in Net Assets From Operating Activities	(281,649)	202,276	(79,373)
Investment Income, Net			
Dividends and interest	785,855	--	785,855
Net realized and unrealized gains (losses) on investments	1,176,889	--	1,176,889
Investment fees	(125,063)	--	(125,063)
Total Investment Income, Net	1,837,681	--	1,837,681
Other Income (Expense), Net			
Change in cash surrender value of life insurance	8,708	--	8,708
Store sales, net of cost of goods sold of \$43,603	(13,897)	--	(13,897)
Curatorial sales	18,485	--	18,485
Tavern sales	52,991	--	52,991
Interest expense	(41,802)	--	(41,802)
Total Other Income (Expense), Net	24,485	--	24,485
Net Increase in Net Assets	\$ 1,580,517	\$ 202,276	\$ 1,782,793
Net Assets - Beginning, As Previously Reported	\$ 24,129,504	\$ 1,596,727	\$ 25,726,231
Prior period adjustment	574,795	(95,992)	478,803
Net Assets - Beginning, As Restated	24,704,299	1,500,735	26,205,034
Net Increase in Net Assets	1,580,517	202,276	1,782,793
Net Assets - Ending	\$ 26,284,816	\$ 1,703,011	\$ 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, 2018

Cash Flows Provided By Operating Activities	
Change in net assets	\$ 1,782,793
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	746,733
Net realized and unrealized gain on investments	(1,176,889)
Increase in cash surrender value of life insurance	(8,708)
Changes in operating assets and liabilities:	
Accounts receivable	94,786
Promises to give	77,502
Grants receivable	857,600
Inventory	41,901
Prepaid expenses	69,272
Accounts payable and accrued expenses	679,736
Deferred rent obligation	(37,000)
Deferred revenue	(12,901)
Net Cash Provided By Operating Activities	3,114,825
Cash Flows Used In Investing Activities	
Purchase of property and equipment	(2,549,221)
Purchase of investments	(2,125,772)
Proceeds from sale of investments	4,091,393
Net Cash Used In Investing Activities	(583,600)
Cash Flows Used In Financing Activities	
Repayments of long-term debt	(19,916)
Net Increase in Cash and Cash Equivalents	2,511,309
Cash and Cash Equivalents - Beginning of year	17,466
Cash and Cash Equivalents - End of year	\$ 2,528,775
Supplemental Disclosure of Cash Flow Information	
Cash paid during the years for:	
Interest	\$ 41,802
Schedule of Noncash Investing and Financing Activities:	
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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.

The Museum had changed its fiscal year-end date from December 31 to June 30. The fiscal year ended June 30, 2018 is the first full year under the new fiscal year-end.

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.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

BASIS OF PRESENTATION

The Museum and Affiliate 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 is incurred, regardless of the timing of the related cash flows. As such, the Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Permanently restricted net assets result from contributions that are restricted by donor imposed stipulations that neither expire by the passage of time nor can be removed by the Board. The Museum does not have any permanently restricted net assets.

Temporarily restricted net assets include contributions that are restricted as to use or time by the donor. When a donor restriction expires, that is, when a purpose restriction is accomplished or a time restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the statements of activities and changes in net assets.

Unrestricted net assets include assets that are not restricted by donors and are available to support operations of the Museum. From time to time, the Board will designate net assets for a specific purpose whose designation can be changed by Board action.

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 in marketable securities with readily determinable fair values are reported at their fair market value in the statement of financial position. 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.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

INVESTMENTS (CONTINUED)

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.

INVENTORY

Inventory consists of items sold in the Museum's gift shop and liquor for sale in the tavern and through events and facility rentals. Inventory is stated at the lower of cost (first-in, first-out method) or net realizable value.

REVENUE RECOGNITION

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

ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts due for boat shop projects, 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 to meet their obligations. At June 30, 2018, 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 temporarily or permanently restricted net assets depending upon the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are released to unrestricted net assets.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

CONTRIBUTIONS AND PROMISES TO GIVE (CONTINUED)

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 temporarily restricted net assets. As of June 30, 2018, all promises to give were expected to be collected in the next fiscal year.

GRANTS REVENUE AND RECEIVABLE

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, 2018. 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.

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, 2018

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, 2018.

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, 2018, the cash surrender value of the policy amounted to \$84,458.

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 unrestricted net assets in the year in which the items are acquired, or as decreases in temporarily or permanently restricted net assets 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 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, 2018

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. The Museum recognized \$16,785 from the sale of collections for the year ended June 30, 2018.

ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising costs totaled \$165,205 for the year ended June 30, 2018.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Expenses are charged to program and supporting services on the basis of direct charges for those items specifically identified with the respective functions. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Museum.

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, 2018, 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, 2018, 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.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

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.

NOTE 2 - PRIOR PERIOD ADJUSTMENT

The Museum has restated its net assets as of July 1, 2017 due to corrections of errors. A schedule of the changes to its net assets is summarized below.

Description	Unrestricted	Temporarily Restricted	Total
Net assets, as originally reported	\$ 24,129,504	\$ 1,596,727	\$ 25,726,231
Capitalization of expenses related to exhibits and building improvements	493,306	-	493,306
Write-off of accounts receivable – parking	(14,503)	-	(14,503)
Net assets released from restriction	95,992	(95,992)	-
Net assets, as restated	<u>\$ 24,704,299</u>	<u>\$ 1,500,735</u>	<u>\$ 26,205,034</u>

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments held by the Museum consist of the following at June 30, 2018:

	Fair Value	Cost
Equity mutual funds	\$ 10,132,039	\$ 7,438,924
Fixed income mutual funds	7,338,624	7,424,596
Limited partnerships	5,226,041	4,403,922
Total	<u>\$ 22,696,704</u>	<u>\$ 19,267,442</u>

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

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2018, 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 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 investments, which approximates fair market value.

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, 2018. The following tables sets forth the Museum’s fair value measurements on a recurring basis:

	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 17,470,663	\$ -	\$ -	\$ 17,470,663
Limited partnership	-	-	5,226,041	5,226,041
	<u>\$ 17,470,663</u>	<u>\$ -</u>	<u>\$ 5,226,041</u>	<u>\$ 22,696,704</u>

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2018:

Balance, beginning of period	\$ 4,695,082
Income from partnership	114,960
Net realized and unrealized gains	460,820
Expenses	<u>(44,821)</u>
Balance, end of period	<u>\$ 5,226,041</u>

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30, 2018:

Building improvements	\$ 16,282,161
Computers and equipment	941,215
Furniture and Fixtures	558,339
Vehicles	49,560
Other depreciable property	<u>5,587,286</u>
	23,418,561
Less: accumulated depreciation and amortization	<u>(17,983,885)</u>
Property and equipment, net	<u>\$ 5,434,676</u>

Depreciation expense for the year ended June 30, 2018 totaled \$746,733.

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, 2018 totaled \$403,500 and is shown as a deferred rent obligation in the accompanying financial statements. The current portion of the deferred rent obligation is \$57,000 as of June 30, 2018.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 6 - LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2018:

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. \$ 1,135,110

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% (6.0% as of June 30, 2018). The debt is collateralized by substantially all assets of the Museum. \$ 118,750

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. \$ 24,612

Total long term debt \$ 1,278,472

Less: current portion (756,954)

Long-Term Portion \$ 521,518

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

For the Year Ending June 30,	Amount
2019	\$ 756,954
2020	59,396
2021	60,116
2022	29,611
2023	21,121
Thereafter	350,825
Total	<u>\$ 1,278,023</u>

Interest expense on these loans for the year ended June 30, 2018 was \$41,802.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 7 - ENDOWMENT FUNDS

Certain unrestricted net assets 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, 2018, the Museum had the following endowment-related activities:

	General	Boatshop	Total
Beginning balance	\$ 21,058,258	\$ 2,458,237	\$ 23,516,495
Investment return			
Investment income	669,779	115,081	784,860
Investment fees	(113,893)	(11,170)	(125,063)
Net appreciation (realized and unrealized)	1,028,163	148,726	1,176,889
Amounts appropriated for Expenditure	(1,508,548)	-	(1,508,548)
Total change in fund	75,501	252,637	514,948
Fund balance, ending	\$ 21,133,759	\$ 2,710,874	\$ 23,844,633

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.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 8 - NET ASSETS

UNRESTRICTED, BOARD DESIGNATED

Unrestricted net assets of \$23,844,633 as of June 30, 2018 have been designated by the Board for the endowment fund (See Note 7).

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30, 2018:

River Alive Exhibit	\$ 1,310,774
Other Exhibits	26,293
Education	363,139
Other	<u>2,805</u>
Total temporarily restricted net assets	<u>\$ 1,703,011</u>

NOTE 9 - 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 \$117,149 for the year ended June 30, 2018.

NOTE 10 - 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 \$1,257,000 as of June 30, 2018.

NOTE 11 - 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, 2018

NOTE 11 – 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, 2018, the future minimum lease commitments, excluding potential renewal options, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 170,000
2020	190,000
2021	190,000
2022	190,000
2023	190,000
Thereafter	95,000
Total	<u>\$ 1,025,000</u>

Rent expense related to these leases was \$119,750 for the year ended June 30, 2018.

NOTE 12 - 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 13 - SUBSEQUENT EVENTS

Subsequent events have been evaluated for potential recognition or disclosure through January 14, 2019, the date the financial statements were available to be issued. No events requiring recognition or disclosure within the financial statements have been identified.

INDEPENDENCE SEAPORT MUSEUM AND AFFILIATE

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fundraising	Totals
Salaries	\$ 1,762,767	\$ 314,258	\$ 228,483	\$ 2,305,508
Benefits	461,862	59,229	63,718	584,809
Total personnel expenses	2,224,629	373,487	292,201	2,890,317
Program supplies and materials	241,149	2,101	--	243,250
Grants	306,415	--	--	306,415
Professional services	281,273	47,815	6,893	335,981
Occupancy	480,538	39,274	17,553	537,365
Office supplies and other expenses	171,727	32,417	18,316	222,460
Depreciation and amortization	677,214	48,738	20,781	746,733
Advertising and promotion	154,304	2,883	8,018	165,205
Insurance	85,487	4,043	2,464	91,994
Exhibit maintenance and development	54,200	--	--	54,200
Museum events	232,488	-	8,249	240,737
Staff development, travel and entertainment	63,637	7,368	4,337	75,342
Total Functional Expenses	\$ 4,973,061	\$ 558,126	\$ 378,812	\$ 5,909,999

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