

THE MARINERS' MUSEUM

FINANCIAL REPORT

December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Mariners' Museum
Newport News, Virginia

We have audited the accompanying financial statements of The Mariners' Museum, which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the period from October 1, 2019, through December 31, 2020, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial position of The Mariners' Museum as of December 31, 2020, and the changes in its net assets and its cash flows for the period from October 1, 2019, through December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
September 10, 2021

THE MARINERS' MUSEUM

STATEMENT OF FINANCIAL POSITION

December 31, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents, operating accounts	\$ 298,584
Accounts receivable - other	74,163
Employee retention credit receivable (Note 20)	458,665
Current portion of pledges receivable (Notes 4 and 8)	375,841
Inventories	130,137
Other current assets	27,757

Total current assets 1,365,147

PROPERTY AND EQUIPMENT, net (Note 6) 24,441,002

OTHER ASSETS

Pledges receivable, less current portion (Notes 4 and 8)	724,615
Investments	
Cash and cash equivalents, investment accounts (Notes 5 and 8)	4,556,634
Investments (Notes 5 and 8)	15,409,542
Beneficial interest in trusts (Notes 7 and 8)	101,600,740

Total other assets 122,291,531

\$ 148,097,680

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 84,129
Accrued expenses	463,973
Current portion of bond payable (Note 12)	960,000

Total current liabilities 1,508,102

LONG-TERM LIABILITIES

Charitable gift annuities (Notes 8 and 10)	33,396
Deferred revenue (Note 11)	3,157,264
Bond payable, less current portion (Note 12)	5,760,000

Total liabilities 10,458,762

The Notes to Financial Statements are an integral part of this statement.

THE MARINERS' MUSEUM

**STATEMENT OF FINANCIAL POSITION
December 31, 2020**

(Continued)

NET ASSETS	
Without donor restrictions:	
Undesignated	\$ 16,501,333
Board designated (Note 15)	<u>9,159,855</u>
Total net assets without donor restrictions	<u>25,661,188</u>
With donor restrictions:	
Restricted by purpose (Note 14)	3,074,015
Restricted by time (Note 14)	612,466
Restricted by perpetuity (Note 14)	<u>108,291,249</u>
Total net assest with donor restrictions	<u>111,977,730</u>
Total net assets	<u>137,638,918</u>
	<u><u>\$ 148,097,680</u></u>

The Notes to Financial Statements are an integral part of this statement.

THE MARINERS' MUSEUM

STATEMENT OF ACTIVITIES

For the Period from October 1, 2019 through December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES			
Income from funds held in trust by others	\$ 5,607,175	\$ -	\$ 5,607,175
Realized and unrealized gains on investments, net	1,219,538	11,453,426	12,672,964
Contributions	850,503	6,626,735	7,477,238
Paycheck protection program loan forgiveness (Note 18)	1,043,282	-	1,043,282
Employee retention credit (Note 20)	458,665	-	458,665
Dividend and interest income, net	370,766	105,329	476,095
Contracts	312,493		312,493
Lease	188,650	-	188,650
Facility rental	84,758	-	84,758
Museum shop	74,920	-	74,920
Miscellaneous	53,720	3,900	57,620
Admission fees	49,927	-	49,927
Photography	45,201	-	45,201
Education program fees	29,712	-	29,712
Deaccession	1,200	-	1,200
Net assets released from restrictions	460,597	(460,597)	-
	10,851,107	17,728,793	28,579,900
PROGRAM EXPENSES			
Exhibitions	2,266,906	-	2,266,906
Programs	2,650,940	-	2,650,940
Research	2,444,297	-	2,444,297
Conservation	2,582,985	-	2,582,985
	9,945,128	-	9,945,128
SUPPORTING EXPENSES			
Management and general	866,416	7,593	874,009
Fundraising expenses	817,224	-	817,224
	1,683,640	7,593	1,691,233
Total supporting expenses	1,683,640	7,593	1,691,233
Total expenses	11,628,768	7,593	11,636,361
Change in net assets	(777,661)	17,721,200	16,943,539
Net assets, beginning of period	26,438,849	94,256,530	120,695,379
Net assets, end of period	\$ 25,661,188	\$ 111,977,730	\$ 137,638,918

The Notes to Financial Statements are an integral part of this statement.

THE MARINERS' MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
For the Period from October 1, 2019 through December 31, 2020

	Program Services				Total Program Services	Supporting Services			Total
	Exhibitions	Programs	Research	Conservation		General and Administrative	Fundraising	Total Supporting Services	
EXPENSES									
Salaries and wages	\$ 1,062,218	\$ 1,408,819	\$ 1,102,556	\$ 1,347,971	\$ 4,921,564	\$ 282,887	\$ 587,289	\$ 870,176	\$ 5,791,740
Depreciation	337,950	337,950	337,950	337,950	1,351,800	337,950	-	337,950	1,689,750
Employee benefits	269,025	269,025	269,025	269,025	1,076,100	61,865	128,383	190,248	1,266,348
Occupancy	163,655	163,821	163,655	168,909	660,040	84,836	5,534	90,370	750,410
Repair and maintenance	128,222	135,681	130,958	162,437	557,298	48,270	3,249	51,519	608,817
Outside services	60,996	85,376	137,361	41,084	324,817	13,186	14,685	27,871	352,688
Interest	71,881	71,881	71,881	71,881	287,524	-	-	-	287,524
Insurance	52,129	52,129	52,129	52,129	208,516	20,500	7,275	27,775	236,291
Supplies	20,578	35,001	21,373	66,623	143,575	6,574	41,249	47,823	191,398
Other	52,418	25,279	27,809	24,074	129,580	10,861	16,461	27,322	156,902
Subscriptions	10,252	8,787	94,276	8,248	121,563	519	4,427	4,946	126,509
Advertising	16,542	21,444	16,542	16,542	71,070	69	5,119	5,188	76,258
Dues and licenses	18,106	14,226	15,742	13,178	61,252	5,631	1,977	7,608	68,860
Conferences/meetings	1,932	9,173	1,932	1,932	14,969	377	1,175	1,552	16,521
Travel	1,002	12,348	1,108	1,002	15,460	484	401	885	16,345
	<u>\$ 2,266,906</u>	<u>\$ 2,650,940</u>	<u>\$ 2,444,297</u>	<u>\$ 2,582,985</u>	<u>\$ 9,945,128</u>	<u>\$ 874,009</u>	<u>\$ 817,224</u>	<u>\$ 1,691,233</u>	<u>\$ 11,636,361</u>

The Notes to Financial Statements are an integral part of this statement.

THE MARINERS' MUSEUM

STATEMENT OF CASH FLOWS

For the Period from October 1, 2019 through December 31, 2020

OPERATING ACTIVITIES

Change in net assets	\$ 16,943,539
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	1,689,750
Realized and unrealized gains on investments:	
Funds held in trust by others	(10,662,034)
Investments	(2,010,930)
Contributions for endowment	(5,466,374)
Contributions for property and equipment	(393,065)
Change in valuation of charitable gift annuities	7,593
Change in assets and liabilities:	
Accounts receivable - other	(34,894)
Employee retention credit receivable	(458,665)
Grants receivable	7,469
Pledges receivable	(130,788)
Inventories	8,967
Other current assets	61,813
Accounts payable	(58,319)
Accrued expenses	37,009
Deferred revenue	(122,316)
	<hr/>
Net cash used by operating activities	(581,245)

INVESTING ACTIVITIES

Property and equipment acquisitions	(748,521)
Sales and maturities of investments	6,309,119
Purchases of investments	(5,969,854)
	<hr/>
Net cash used by investing activities	(409,256)

FINANCING ACTIVITIES

Payments on long-term debt	(960,000)
Payments on charitable gift annuities	(15,781)
Proceeds from contributions for endowment	5,466,374
Proceeds from contributions for property and equipment	393,065
	<hr/>
Net cash provided by financing activities	4,883,658

 Net increase in cash and cash equivalents 3,893,157

CASH AND CASH EQUIVALENTS

Beginning of period	<hr/> 962,061
End of period	<hr/> <hr/> \$ 4,855,218

The Notes to Financial Statements are an integral part of this statement.

THE MARINERS' MUSEUM

STATEMENT OF CASH FLOWS

(Continued)

For the Period from October 1, 2019 through December 31, 2020

CASH AND CASH EQUIVALENTS, end of period

Held in operating accounts	\$ 298,584
Held in investment accounts	4,556,634
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Cash and cash equivalents, end of period	<u>\$ 4,855,218</u>
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SUPPLEMENTAL DISCLOSURES

Cash paid for interest	<u>\$ 287,524</u>
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The Notes to Financial Statements are an integral part of this statement.

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS December 31, 2020

1. Organization and Nature of Activities

The Mariners' Museum (Museum) is a Virginia nonprofit educational and cultural institution which was incorporated in May 1930, and is located in Newport News, Virginia.

The stated mission of the Museum is “to connect people to the world’s waters, because through the world’s waters - through our shared maritime heritage - we are connected to one another.” The Museum executes on its mission through four core functions: exhibits, programs, research, and conservation. The Museum designs its activities within the four core functions to serve audiences - both in-person and virtually - from all over the world. The Museum’s Batten Conservation Complex is home to the world’s largest marine archaeological metals conservation project. The collection on which the Museum’s exhibits, programs, and research support is based includes the largest maritime library and archival collection in the Western Hemisphere and several other collection types that are generally recognized as being internationally significant. The 550-acre Mariners’ Park, the 167-acre Mariners’ Lake, and the 5-mile Noland Trail comprise the campus on which the Museum sits and hosts a variety of environmental conservation activities, educational programs, and recreation and wellness activities.

In May 2020, the Board voted to change the Museum’s fiscal year-end of September 30 to December 31, effective for the fifteen month period ended December 31, 2020, and calendar years thereafter.

2. Summary of Significant Accounting Policies

Accounting method

The financial statements of the Museum have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America; revenue and gains are recognized when earned, and expenses and losses are recognized when incurred. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Basis of presentation

The financial statements report amounts separately by classes of net assets.

Net assets without donor restrictions are those currently available at the discretion of the Museum’s Board of Trustees for use in operations and those resources invested in property and equipment.

Net assets with donor restrictions are those which are subject to donor-imposed restrictions. Some are temporary in nature and are stipulated by donors for specific operating purposes or for the acquisition of property and equipment. Other donor-imposed restrictions are perpetual in nature, where there is a stipulation that they be invested to provide a permanent source of revenue. Such revenue is expendable in accordance with the conditions of each specific donation. When a donor restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions.

(Continued)

THE MARINERS' MUSEUM

**NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

2. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

The Museum considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Inventories

Inventories consist of gift shop items and are stated at the lower of cost (determined using the first-in, first-out method) or net realizable value. Inventory related to the Museum Shop was \$130,137 at December 31, 2020.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Fair value is 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. See Note 8 for discussion of fair value measurements. Investment distribution or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law. The Museum's investments are primarily in equity and fixed income securities and investment income is reported in the accompanying statement of activities, net of investment management fees.

Beneficial interest in trusts represent resources neither in the possession nor under the control of the Museum, but held and administered by outside fiscal agents, with the Museum deriving income from such funds. While the Museum does not control the trust, the chairperson of the Museum's Finance and Investment Committee serves as one of the trustees of the trust. The trusts are stated at fair value. The assets held in trust are classified as net assets with donor restrictions. The distribution received from the trusts is classified as increases in net assets without donor restrictions in the accompanying statement of activities. Unrealized gains or losses of the assets held by the trusts are reflected as a change in net assets with donor restrictions on the accompanying statement of activities.

Property and equipment

Property and equipment are stated at cost on acquisition date or fair value on gift date. Property and equipment, except land and lakes, dams and improvements, are depreciated by the straight-line method over their estimated useful lives as follows:

Building and improvements	5 - 40 years
Furniture and equipment	2 - 20 years
Land improvements	10 - 20 years
The Noland Trail	20 years

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS December 31, 2020

2. Summary of Significant Accounting Policies (Continued)

Property and equipment (Continued)

Maintenance and ordinary repairs are expensed; improvements are capitalized. Gains and losses arising from disposal or retirement of property and equipment are recognized currently in the accompanying statement of activities and the cost and related accumulated depreciation, if applicable, are removed from the accounts. For donated capital assets, the Museum does not impose a restriction on the length of time the assets must be held. The Museum's policy is to capitalize all items with a useful life greater than three years.

Collection

The Museum maintains significant collection assets, including models, small crafts, prints, paintings, books, photographs, and navigation instruments. In accordance with industry practice, the value of the collection has been excluded from the statement of financial position. Only current year purchases and proceeds from sale are reflected in the statement of activities. It is the policy of the Museum that proceeds from the sale of any collection items are to be used to support the direct care of existing collections in addition to the acquisition of new items for the collection. The Museum presently defines direct care as the conservation or maintenance of items currently owned by the Museum either by Museum staff or by external conservators.

Pledges receivable

Pledges receivable are recognized as revenue in the period the promise is made by the donor. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved when deemed significant. An allowance for uncollectible pledges receivable is provided based upon management's judgment, including such factors as prior collection history and type of pledge.

In-kind contributions and donated services

The Museum received in-kind contributions of \$57,401 during the fifteen month period ended December 31, 2020, which were not collection items. Additionally, the Museum received volunteer hours of 14,094 during this same period. No amounts have been recognized in the statement of activities for donated services because the criteria for recognition under applicable accounting standards have not been satisfied.

Restricted contributions

Contributions received by the Museum with donor-imposed restrictions, which are not met within the same reporting period, are reported as net assets with donor restrictions. The revenue is then shown as released from restrictions on the accompanying statement of activities when the restriction has been satisfied. Donor-restricted contributions whose restrictions are met in the same period are reported as unrestricted support.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS December 31, 2020

2. Summary of Significant Accounting Policies (Continued)

Method used for allocation of expenses among program and supporting services

The Museum allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are charged directly. Other expenses that are common to several functions are allocated based on square footage of the Museum.

Advertising costs

Advertising costs are expensed as incurred and were \$76,258 during the fifteen month period ended December 31, 2020. Advertising costs are included in various program and fundraising expense groupings on the statement of activities.

Income taxes

The Museum is a nonstock corporation which has been determined by the Internal Revenue Service to be exempt from taxes on income derived from activities related to its exempt purpose under Section 501(c)(3) of the Internal Revenue Code. The Museum is subject to income taxes on profits, if any, generated from the sale of items in its gift shop which are unrelated to its exempt purpose. The Internal Revenue Service has also determined that the Museum is not a private foundation under Section 509(a)(1).

Credit risk

Financial instruments that potentially expose the Museum to concentrations of credit risk consist primarily of cash and cash equivalents and investments. Cash and cash equivalents and investments are maintained at high quality financial institutions. At December 31, 2020, the Museum had approximately \$4,306,000 of cash and cash equivalents on deposit with financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limit, most of which was held in the investment accounts.

Concentrations

The Museum has received revenue from one donor that amounted to 67% percent of total contributed revenue for the fifteen month period ended December 31, 2020. See further details at Note 17.

Reclassifications

Certain reclassifications have been made to the beginning balances from the 2019 financial statements to conform to the 2020 financial statement presentation. Total net assets and the change in net assets are unchanged due to these reclassifications.

Subsequent events

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through September 10, 2021, the date the financial statements were available to be issued.

(Continued)

THE MARINERS' MUSEUM

**NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

3. Liquidity and Availability

As part of its liquidity management, the Museum utilizes the earnings from its investment funds to make bond payments and fund plant and equipment costs (both capital expenditures and operating expenditures) designated by the Board. Operations are also funded by the annual draw from a portion of the beneficial interest in trusts.

The following table reflects the Museum's financial assets as of December 31, 2020, reduced by amounts not available for general expenditure within one year of the balance sheet date, due to donor or other restrictions limiting their use:

Financial assets as presented in the statement of financial position:	
Cash and cash equivalents, operating and investment accounts	\$ 4,855,218
Accounts receivable - other	74,163
Employee retention credit receivable	458,665
Current portion of pledges receivable	375,841
Investments	<u>15,409,542</u>
	<u>\$ 21,173,429</u>
Less, amounts unavailable for general expenditure within one year:	
Cash and cash equivalents, investment accounts	\$ (4,556,634)
Current portion of pledges receivable restricted for purpose	(206,845)
Board designated investments, not including board approved draws of \$1,454,000 and bond repayment of \$1,148,420	(7,502,784)
Investments restricted for purpose	<u>(5,304,339)</u>
	<u>(17,570,602)</u>
Total financial assets available within one year	<u>\$ 3,602,827</u>

4. Pledges Receivable

The Museum records pledges receivable as income in the year the promise is received. Pledges receivable include the following at December 31:

The Monitor Center campaign	\$ 445,000
General operating and library support	<u>655,456</u>
	<u>\$ 1,100,456</u>

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

4. Pledges Receivable (Continued)

The anticipated cash flows from pledges receivable is as follows:

Receivable in less than one year	\$ 375,841
Receivable in one to five years	<u>874,615</u>
 Total pledges receivable	 1,250,456
Allowance for uncollectible pledges	<u>(150,000)</u>
 Current portion	 <u>1,100,456</u> <u>(375,841)</u>
	<u><u>\$ 724,615</u></u>

5. Investments

Investments are presented at fair value and consist of the following:

Fixed income - US bond funds	\$ 4,921,052
Equity securities - US large cap	8,510,978
Equity securities - Non US	1,109,046
Equity securities - US mid cap/small cap	<u>868,466</u>
	<u><u>\$ 15,409,542</u></u>

The investments are under the management of JP Morgan Chase Bank. At December 31, 2020, \$4,556,634 of cash and cash equivalents is held in the JP Morgan Chase Bank investment accounts.

At December 31, 2020, fair values and unrealized gains are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
JP Morgan Chase Bank	<u>\$ 12,418,387</u>	<u>\$ 15,409,542</u>	<u>\$ 2,991,155</u>

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

6. Property and Equipment

Property and equipment consist of the following at December 31:

Building and improvements	\$ 54,016,073
Land improvements	4,656,952
Furniture and equipment	7,165,011
The Noland Trail	2,219,802
Lakes, dams and improvements	<u>626,901</u>
	68,684,739
Accumulated depreciation	<u>(44,329,094)</u>
	24,355,645
Construction in progress	<u>85,357</u>
	<u>\$ 24,441,002</u>

Depreciation expense was \$1,689,749 for the fifteen month period ended December 31, 2020.

7. Beneficial Interest in Trusts

The Museum is the beneficiary of various irrevocable trusts established by the Museum founder, Archer M. Huntington, which are classified as net assets with donor restrictions. The Museum receives distributions on the securities held by the trusts. These distributions are reported in the accompanying statement of activities, net of expenses and are included in income from funds held in trust by others.

At December 31, 2020, the value recorded for the beneficial interest in trusts is comprised of the following:

JP Morgan Chase Bank Trust #03152009	\$ 51,303,310
JP Morgan Chase Bank Trust #03583005	33,990,591
JP Morgan Chase Bank Trust #98940006	6,111,203
JP Morgan Chase Bank Trust #98843002	4,218,205
JP Morgan Chase Bank Trust #03152306	1,528,942
JP Morgan Chase Bank Trust #03583302	1,017,537
SunTrust Bank Trust #13214200	2,119,906
Bank of America (formerly U.S. Trust Co. of New York #239550)	1,016,317
Bank of New York #676580	146,197
Bank of New York #676730	84,942
Bank of New York #676760	<u>63,590</u>
	<u>\$ 101,600,740</u>

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

7. Beneficial Interest in Trusts (Continued)

The Museum and JP Morgan, as trustees, have adopted a total return policy with respect to distributions from its Huntington Trust at JP Morgan. This total return policy uses as a benchmark the rolling average value of the trusts, using the quarter end values of the preceding twelve quarters, ending with September 30 of the previous year. The Board of Trustees requested and received a distribution of five percent (5%) during the period.

The Museum is also a co-beneficiary with three other not-for-profit organizations under the trust agreement with Bank of America (formerly U.S. Trust Co., of New York). Therefore, the amount recorded in the accompanying statement of financial position is 25% of the trust's value, which represents the Museum's share under this split-interest agreement.

8. Fair Value Measurements

Accounting standards established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

8. Fair Value Measurements (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020.

Equity securities: Valued at the closing price reported on the active market on which the equity securities are traded.

Fixed income securities: Valued by a computerized pricing service or, for less actively traded issues, by utilizing a yield-based matrix system to arrive at an estimated fair value at year end.

Pledges receivable: Pledges receivable are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Pledges receivable that are expected to be collected in more than one year are reported at fair value initially and, in subsequent periods, fair value is calculated as the present value of the expected future pledges to be received using a discount rate.

Charitable gift annuities: Charitable gift annuities are valued at the discounted value of the future payments to the donor using IRS life expectancy tables.

Beneficial interest in trusts: Valued using the fair value of the underlying assets of the trust as an estimate for the present value of the expected future cash flows.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following sets forth by level, within the fair value hierarchy, the Museum's assets and liabilities at fair value at December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Trading securities:				
Equity securities - US large cap	\$ 8,510,978	\$ -	\$ -	\$ 8,510,978
Equity securities - US mid/small cap	868,466	-	-	868,466
Equity securities - Non US	1,109,046	-	-	1,109,046
Fixed income securities - US bond	<u>-</u>	<u>4,921,052</u>	<u>-</u>	<u>4,921,052</u>
	10,488,490	4,921,052	-	15,409,542
Pledges receivable	-	-	1,100,456	1,100,456
Charitable gift annuities	-	-	(33,396)	(33,396)
Beneficial interest in trusts	<u>-</u>	<u>-</u>	<u>101,600,740</u>	<u>101,600,740</u>
Total assets and liabilities at fair value	<u>\$ 10,488,490</u>	<u>\$ 4,921,052</u>	<u>\$102,667,800</u>	<u>\$118,077,342</u>

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

8. Fair Value Measurements (Continued)

The table below sets forth a summary of changes in the fair value of the Museum's level 3 investment assets:

	<u>Pledges Receivable</u>	<u>Beneficial Interest in Trusts</u>
Balance - September 30, 2019	\$ 969,668	\$ 90,938,703
New pledges	6,023,221	-
Pledge collections	(5,888,418)	-
Pledges written off	(4,015)	-
Distributions from Trusts	-	(5,400,385)
Adjustment to fair value	-	<u>16,062,422</u>
Balance - December 31, 2020	<u>\$ 1,100,456</u>	<u>\$ 101,600,740</u>

9. Retirement Plan

The Museum sponsors a 403(b) Tax Deferred Retirement Plan. The Plan is a defined contribution plan covering substantially all employees. Employees may contribute to the Plan subject to the limitations imposed by the Internal Revenue Service. Effective April 1, 2017, the Museum makes an elective matching contribution tiered up to 4% of eligible compensation. The Museum contributed \$197,391 to the Plan during the fifteen month period ended December 31, 2020.

10. Charitable Gift Annuities

The Museum holds charitable gift annuities, recognized at fair value. Upon the donor's death, the annuity becomes a part of the Museum's endowment fund, and any subsequent distribution earned is available to support Museum operations. The liability to beneficiaries was \$33,396 at December 31, 2020. The discount rate used to calculate the fair value was 4.2%.

11. Deferred Revenue

The Museum's deferred revenue consists primarily of three lease agreements for portions of the Museum's land. In connection with the first agreement, the Museum received an advance rental payment of \$5,000,000, and the lease term extends through 2061. The Museum has deferred the recognition of the amount received, and is amortizing the revenue on a straight-line basis over the lease term at an annual amount of \$69,204. The amount deferred is \$2,837,369 at December 31, 2020. Revenue recognized during the fifteen month period ended December 31, 2020, was \$86,505.

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS December 31, 2020

11. Deferred Revenue (Continued)

The second lease agreement commenced on December 1, 2010, and was for an initial term of 20 years. The rent for the initial term was \$65,000, paid upon the commencement of the lease. The lessee had two options to renew the lease for 20 years and an additional 30 years by making payments upon exercise of those options in the amount of \$25,000 and \$20,000, respectively. The lessee has chosen to exercise both options by making the payments with respect to those options. The term of the lease now ends on November 30, 2080. The Museum has deferred recognition of the amount received, and is amortizing the revenue over the lease term at the following rates, \$3,250 annually over the first 20 years, through 2030, \$1,250 annually for the next 20 years, 2030 through 2050, and \$667 annually for the final 30 years, 2050 through 2080. The deferred amount is \$77,230 at December 31, 2020. Revenue recognized during the fifteen month period ended December 31, 2020, was \$4,062.

During 2012, the Museum entered into a third lease agreement, similar to the above. The lease commenced on May 1, 2012, and was for an initial term of 18.5 years. The rent for the initial term was \$143,780, paid upon the commencement of the lease. The lessee had two options to renew the lease for 20 years and an additional 30 years by making payments upon exercise of those options in the amount of \$65,492 and \$42,650, respectively. The lessee has chosen to exercise both options by making the payments with respect to those options. The term of the lease now ends on November 30, 2080. The Museum has deferred recognition of the amount received, and is amortizing the revenue over the lease term at the following rates, \$7,772 annually over the first 18.5 years, through 2030, \$3,275 annually for the next 20 years, 2030 through - 2050, and \$1,422 annually for the final 30 years, 2050 through 2080. The deferred amount is \$184,565 at December 31, 2020. Revenue recognized during the fifteen month period ended December 31, 2020, was \$9,715.

Additionally, the Museum had various deferred amounts of \$58,100 at December 31, 2020, relating to revenues for facility rental and other fees collected in advance of events at the Museum that have not taken place at year-end.

12. Bond Payable

On February 1, 2012, the Museum refinanced its bond arrangement. Under the new agreement with the Economic Development Authority of Lancaster County, Virginia, the Museum was issued a \$9,600,000 fixed rate bank qualified tax-exempt bond, which is unsecured. This new bond issue retired the previous debt. In January 2018, the fixed interest rate of the bond was 3.28%. In January 2019, the bond agreement was modified to reduce the fixed interest rate to 3.18%, effective January 1, 2018. The interest paid with the increased rate was refunded to the Museum. Accrued interest on the unpaid principal balance is due monthly through April 1, 2027. The bond contains a provision that allows the interest rate to be adjusted up to take into consideration the Maximum Federal Corporate Tax Rate affecting the Lender. The Museum has been notified that the rate may be adjusted upwards in order to maintain the same after tax yield for the Lender. The Museum was in compliance or had obtained waivers for all financial covenants at December 31, 2020. On April 1, 2018, the Museum began annual principal payments of \$960,000 which extends through April 1, 2027, when the bond is due and payable in full. Interest expense related to this bond was \$287,525 for the fifteen month period ended December 31, 2020, and is included in program expenses on the statement of activities.

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THE MARINERS' MUSEUM

**NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

12. Bond Payable (Continued)

Future minimum principal payments are as follows:

<u>Year Ending December 30,</u>	
2021	\$ 960,000
2022	960,000
2023	960,000
2024	960,000
2025	960,000
Thereafter	<u>1,920,000</u>
	<u>\$ 6,720,000</u>

The Board of Trustees has set aside investments with a value of \$5,773,887 at December 31, 2020, for the purpose of repaying the bond's principal as it comes due for 2020.

13. Donor-Designated Endowments

The Mariners' Museum Endowment (Endowment) was established to support its mission. The Endowment substantially contributes to the growth, financial security and the long-term stability of the Museum.

The Endowment consists of donor-restricted funds that are restricted for a particular purpose. With respect to these donor designated funds, the net assets associated with these endowment funds are classified and reported based on the existence of donor-imposed restrictions. The Board of Trustees of the Museum has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Museum, and (7) the Museum's investment policies.

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

13. Donor-Designated Endowments (Continued)

Investment Return Objectives, Risk Parameters and Strategies. The Museum has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of distributions to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to maximize the total return of the Endowment to ensure conservation of the principal while providing appreciable yield, to the extent financially prudent and practicable. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent inflation-protected rate of return. Generally, total return shall mean for this purpose that (1) assets are invested to achieve the highest overall return (interest, dividends, and realized as well as unrealized appreciation), consistent with the safety and preservation of the assets and (2) the Board of Trustees, or its designee, may annually determine the amount of the total return, up to the limit established by the underlying endowment agreement between the Museum and the respective donors, that will be treated as distributions available for current use. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Museum Board of Trustees governs the use of the Endowment. Limits on distributions from the Endowment are established within the underlying endowment agreement between the Museum and the respective donors. The Museum directly allocates the distributions to the mission related programs and services identified within these underlying endowment agreements.

Composition of and changes in donor designated endowment net assets at December 31, 2020, are presented below.

Donor-designated endowment net asset composition is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-designated endowment funds	\$ -	\$ 7,683,682	\$ 7,683,682

Changes in endowment net assets were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Fund net assets, beginning of year	\$ -	\$ 1,339,908	\$ 1,339,908
Investment return, net	-	862,784	862,784
Contributions	-	5,480,990	5,480,990
Endowment Fund net assets, end of year	\$ -	\$ 7,683,682	\$ 7,683,682

(Continued)

THE MARINERS' MUSEUM

**NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

14. Net Assets with Donor Restriction and Release from Restrictions

The amounts included in net assets with donor restrictions consist of the following at December 31:

Subject to expenditure for specific purpose:	
Program restrictions, including gallery and exhibit funds, artifacts and collection	\$ 2,080,842
Subject to the passage of time:	
Outstanding pledge payments	612,466
Not subject to appropriation or expenditure:	
Beneficial interest in trusts, a portion of the spending rate which is available to support operations	101,600,740
Endowment funds	<u>7,683,682</u>
	<u>\$ 111,977,730</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors. Those amounts released from restriction are as follows:

Purpose restrictions accomplished:	
Program restrictions, including gallery and exhibit funds, artifacts and collection	<u>\$ 460,597</u>

15. Net Assets without Donor Restrictions - Board Designated

At December 31, 2020, \$9,159,855 of net assets without donor restrictions are designated by the Board for bond repayment, gallery upgrades, and plant and equipment costs.

16. Leasing Arrangements

The Museum leases a 5,400 square foot building to National Oceanic and Atmospheric Administration (NOAA) under a noncancelable lease that expires in February 2025. The building is included in property and equipment on the statement of financial position at a total cost of \$649,493 offset by accumulated depreciation of \$259,293 at December 31, 2020. The lease agreement provides for annual rental payments of \$2,500 per year plus reimbursement of operating expenses incurred by the Museum for the upkeep and maintenance of the building as a shared expense. The operating expenses are estimated by the Museum at the beginning of each year and split into twelve equal installments to be paid by NOAA. Within 120 days after the end of each year, the Museum adjusts the rent charged for the actual operating expenses incurred to NOAA and either credits their future rent or requires additional payment, as necessary. The following is a summary of future minimum rental income under the noncancelable operating lease.

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

16. Leasing Arrangements (Continued)

Future minimum payments on the above long-term lease are as follows:

<u>Year Ending December 31,</u>	
2021	\$ 2,500
2022	2,500
2023	2,500
2024	<u>2,500</u>
	<u>\$ 10,000</u>

The Museum also has other lease agreements for portions of the Museum's land. The significant agreements are described in Note 11.

17. Batten Foundation Contributed Revenue

The Museum received a \$5,000,000 donation during the fifteen month period ended December 31, 2020, from the Batten Foundation (the "Foundation") to establish the corpus of an endowment fund. This amount is included in contribution revenue on the statement of activities. The Foundation will donate an additional \$5,000,000 to the Museum prior to December 31, 2022, if certain conditions are met. This conditional pledge was not recorded as a pledge receivable at the date of the pledge in accordance with generally accepted accounting principles (GAAP) for the accounting for conditional pledges. The conditions will not be satisfied until certain actions are completed by the Museum in accordance with the pledge agreement.

18. Paycheck Protection Program Loan Forgiveness

In April 2020, the Museum qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the U.S. Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$1,043,282 (the "PPP Loan"). The Museum was eligible for loan forgiveness if the proceeds of the loan were expended to maintain compensation costs and employee headcount, as well as for other qualifying expenses such as mortgage interest, rent, and utilities, which were incurred following receipt of the loan. Loan forgiveness was subject to the sole approval of the SBA. The Museum used all loan proceeds for qualified expenses during the fifteen month period ended December 31, 2020, and received loan forgiveness from the SBA on December 15, 2020. As a result, the Museum has accounted for the PPP loan in accordance with FASB ASC 958-605 as a conditional contribution. PPP loan forgiveness is included in operating revenues on the statement of activities.

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THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS December 31, 2020

19. COVID-19 Uncertainty

The COVID-19 coronavirus outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Museum's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our members, visitors, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

20. Subsequent Events

In January 2021, the Museum applied for an additional SBA PPP loan in the amount of \$1,097,024. The SBA PPP loan proceeds were received on March 1, 2021. Based on the Museum's payroll needs and other qualifying expenses, it is expected the Museum will qualify for 100% forgiveness during 2021.

In April 2021, the Museum filed for the Employee Retention Credit (ERC). The ERC is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021. Eligible employees such as the Museum have immediate access to the credit by reducing employment tax deposits they are otherwise required to make. The Museum has filed amended 2020 employer's federal tax returns (941's) and has appropriately reduced payroll tax deposits in 2021. The total credit claimed by the Museum related to 2020 and thus receivable at December 31, 2020, is \$458,665 and is included in current assets on the statement of net position and in operating revenues on the statement of activities.