

THE MARINERS' MUSEUM

FINANCIAL REPORT

December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees of
The Mariners' Museum
Newport News, Virginia

Opinion

We have audited the accompanying financial statements of The Mariners' Museum, which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Mariners' Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Mariners' Museum's ability to continue as a going concern for a reasonable period of time.

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
April 21, 2022

THE MARINERS' MUSEUM

STATEMENT OF FINANCIAL POSITION

December 31, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents, operating accounts	\$ 291,931
Accounts receivable - other	53,868
Current portion of pledges receivable (Notes 4 and 8)	448,489
Inventories	76,725
Other current assets	33,602

Total current assets 904,615

PROPERTY AND EQUIPMENT, net (Note 6) 23,340,260

OTHER ASSETS

Pledges receivable, net, less current portion (Notes 4 and 8)	900,499
Investments	
Cash and cash equivalents, investment accounts (Note 5)	5,354,407
Investments (Notes 5 and 8)	17,856,222
Beneficial interest in trusts (Notes 7 and 8)	111,424,242

Total other assets 135,535,370

\$ 159,780,245

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 153,998
Accrued expenses	463,088
Current portion of deferred revenue (Note 10)	80,226
Current portion of bond payable (Note 11)	342,607

Total current liabilities 1,039,919

LONG-TERM LIABILITIES

Deferred revenue, less current portion (Note 10)	2,968,671
Bond payable, less current portion (Note 11)	5,625,927

Total liabilities 9,634,517

(Continued)

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

THE MARINERS' MUSEUM

STATEMENT OF FINANCIAL POSITION

December 31, 2021

NET ASSETS

Without donor restrictions:

Undesignated	\$ 16,271,706
Board designated (Note 14)	9,458,947

Total net assets without donor restrictions	<u>25,730,653</u>
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With donor restrictions:

Restricted by purpose (Note 13)	3,488,545
Restricted by perpetuity (Note 13)	120,926,530

Total net assest with donor restrictions	<u>124,415,075</u>
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Total net assets	<u>150,145,728</u>
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	<u><u>\$ 159,780,245</u></u>
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The Notes to Financial Statements are an integral part of this statement.

THE MARINERS' MUSEUM

STATEMENT OF ACTIVITIES

Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES			
Income from funds held in trust by others	\$ 4,520,131	\$ -	\$ 4,520,131
Realized and unrealized gains on investments, net	1,578,517	11,026,405	12,604,922
Contributions	482,400	2,009,336	2,491,736
Paycheck protection program loan forgiveness (Note 16)	1,097,024	-	1,097,024
Employee retention credit (Note 17)	968,952	-	968,952
Dividend and interest income, net	196,699	87,339	284,038
Contracts	250,000	-	250,000
Lease	162,926	-	162,926
Facility rental	65,371	-	65,371
Museum shop	115,002	-	115,002
Miscellaneous	36,671	5,900	42,571
Admission fees	50,013	-	50,013
Photography	32,194	-	32,194
Education program fees	9,996	-	9,996
Deaccession	4,180	-	4,180
Net assets released from restrictions (Note 13)	685,941	(685,941)	-
	10,256,017	12,443,039	22,699,056
PROGRAM EXPENSES			
Exhibitions	1,983,090	-	1,983,090
Programs	2,216,521	-	2,216,521
Research	2,412,755	-	2,412,755
Conservation	2,205,254	-	2,205,254
	8,817,620	-	8,817,620
SUPPORTING EXPENSES			
Management and general	652,239	5,694	657,933
Fundraising expenses	716,693	-	716,693
	1,368,932	5,694	1,374,626
	10,186,552	5,694	10,192,246
Change in net assets	69,465	12,437,345	12,506,810
Net assets, beginning of year	25,661,188	111,977,730	137,638,918
Net assets, end of year	\$ 25,730,653	\$ 124,415,075	\$ 150,145,728

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

THE MARINERS' MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2021

	<u>Program Services</u>				<u>Supporting Services</u>				<u>Total</u>
	<u>Exhibitions</u>	<u>Programs</u>	<u>Research</u>	<u>Conservation</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
EXPENSES									
Salaries and wages	\$ 937,288	\$1,086,000	\$ 979,807	\$ 1,066,673	\$4,069,768	\$ 110,021	\$ 580,096	\$ 690,117	\$ 4,759,885
Depreciation	373,013	373,013	373,013	373,013	1,492,052	193,429	12,617	206,046	1,698,098
Employee benefits	193,045	226,618	201,438	218,225	839,326	35,077	84,686	119,763	959,089
Occupancy	139,270	139,299	139,270	145,197	563,036	71,749	4,680	76,429	639,465
Repair and maintenance	90,430	96,275	116,400	118,097	421,202	29,376	2,036	31,412	452,614
Outside services	34,423	93,682	36,623	75,201	239,929	17,617	1,149	18,766	258,695
Interest (Note 11)	76,306	76,306	76,306	76,306	305,224	39,572	2,581	42,153	347,377
Insurance	20,432	20,432	20,432	20,432	81,728	10,595	6,629	17,224	98,952
Other	12,787	15,627	9,531	46,744	84,689	124,130	5,847	129,977	214,666
Office expenses	21,339	24,754	26,699	20,461	93,253	8,695	5,231	13,926	107,179
Information technology	15,086	15,086	407,924	20,674	458,770	7,818	510	8,328	467,098
Event/program costs	4,831	12,251	4,786	4,875	26,743	3,874	5,483	9,357	36,100
Advertising	14,600	24,374	8,079	8,116	55,169	116	2,988	3,104	58,273
Exhibition costs	41,209	88	741	-	42,038	-	-	-	42,038
Conferences/meetings	75	890	2,673	2,284	5,922	39	378	417	6,339
Travel	8,956	11,826	9,033	8,956	38,771	5,825	1,782	7,607	46,378
	<u>\$ 1,983,090</u>	<u>\$2,216,521</u>	<u>\$ 2,412,755</u>	<u>\$ 2,205,254</u>	<u>\$8,817,620</u>	<u>\$ 657,933</u>	<u>\$ 716,693</u>	<u>\$ 1,374,626</u>	<u>\$ 10,192,246</u>

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

THE MARINERS' MUSEUM

STATEMENT OF CASH FLOWS

Year Ended December 31, 2021

OPERATING ACTIVITIES

Change in net assets	\$ 12,506,810
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,698,098
Realized and unrealized gains on investments:	
Funds held in trust by others	(9,823,502)
Investments	(2,781,420)
Contributions for endowment	(480,165)
Contributions for property and equipment	(22,314)
Change in valuation of charitable gift annuities	5,694
Change in assets and liabilities:	
Accounts receivable - other	20,295
Employee retention credit receivable	458,665
Pledges receivable	(248,532)
Inventories	53,412
Other current assets	(5,845)
Accounts payable	69,869
Accrued expenses	(885)
Deferred revenue	(108,367)
	<hr/>
Net cash provided by operating activities	1,341,813

INVESTING ACTIVITIES

Property and equipment acquisitions	(597,356)
Sales and maturities of investments	2,050,039
Purchases of investments	(1,744,920)
	<hr/>
Net cash used by investing activities	(292,237)

FINANCING ACTIVITIES

Payments on long-term debt	(751,466)
Payments on charitable gift annuities	(9,469)
Proceeds from contributions for endowment	480,165
Proceeds from contributions for property and equipment	22,314
	<hr/>
Net cash used by financing activities	(258,456)

Net increase in cash and cash equivalents 791,120

CASH AND CASH EQUIVALENTS

Beginning of year	<hr/>
	4,855,218
End of year	<hr/>
	\$ 5,646,338

(Continued)

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

THE MARINERS' MUSEUM

STATEMENT OF CASH FLOWS
Year Ended December 31, 2021

CASH AND CASH EQUIVALENTS, end of year

Held in operating accounts	\$ 291,931
Held in investment accounts	5,354,407
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Cash and cash equivalents, end of year	<u>\$ 5,646,338</u>
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SUPPLEMENTAL DISCLOSURES

Cash paid for interest	<u>\$ 347,377</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, 2021

1. Organization and Nature of Activities

The Mariners' Museum (Museum) is a Virginia nonprofit educational and cultural institution which was incorporated in June 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.

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, 2021**

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 \$76,725 at December 31, 2021.

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, 2021

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 \$32,292 in 2021, which were not collection items. Additionally, the Museum received volunteer hours of 14,950 in 2021. 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.

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS December 31, 2021

2. Summary of Significant Accounting Policies (Continued)

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.

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 \$58,273 during 2021. 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, 2021, the Museum had approximately \$5,184,000 of cash and cash equivalents on deposit with financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) limits, most of which was held in the investment accounts.

Subsequent events

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through April 21, 2022, the date the financial statements were available to be issued.

(Continued)

THE MARINERS' MUSEUM

**NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

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, 2021, 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	\$ 5,646,338
Accounts receivable - other	53,868
Current portion of pledges receivable	448,489
Investments	<u>17,856,222</u>
	<u>\$ 24,004,917</u>
Less, amounts unavailable for general expenditure within one year:	
Cash and cash equivalents, investment accounts	\$ (5,354,407)
Current portion of pledges receivable restricted for purpose	(170,000)
Board designated investments, not including board approved draws of \$2,777,797 and bond repayment of \$468,730	(7,107,253)
Investments restricted by purpose and perpetuity	<u>(6,980,072)</u>
	<u>(19,611,732)</u>
Total financial assets available within one year	<u>\$ 4,393,185</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	\$ 425,000
General operating and library support	<u>923,988</u>
	<u>\$ 1,348,988</u>

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

4. Pledges Receivable (Continued)

The anticipated cash flows from pledges receivable is as follows:

Receivable in less than one year	\$ 448,489
Receivable in one to five years	<u>1,050,499</u>
 Total pledges receivable	 1,498,988
Allowance for uncollectible pledges	<u>(150,000)</u>
 Current portion	 <u>1,348,988</u> <u>(448,489)</u>
	<u>\$ 900,499</u>

5. Investments

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

Fixed income - US bond funds	\$ 3,601,434
Fixed income - Non US bond funds	321,257
Equity securities - US large cap	11,051,384
Equity securities - Non US	1,229,811
Equity securities - US mid cap/small cap	1,060,191
Equity securities - Concentrated and other equity	354,935
Equity securities - Preferred stocks	<u>237,210</u>
	<u>\$ 17,856,222</u>

The investments are under the management of JP Morgan Chase Bank. At December 31, 2021, \$5,354,407 of cash and cash equivalents is held in the JP Morgan Chase Bank investment accounts.

At December 31, 2021, fair values and unrealized gains are summarized as follows:

	Cost	Fair Value	Unrealized Gain
JP Morgan Chase Bank	<u>\$ 12,075,364</u>	<u>\$ 17,856,222</u>	<u>\$ 5,780,858</u>

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

6. Property and Equipment

Property and equipment consist of the following at December 31:

Building and improvements	\$ 54,208,695
Land improvements	4,656,952
Furniture and equipment	7,360,588
The Noland Trail	2,219,802
Lakes, dams and improvements	<u>626,901</u>
	69,072,938
Accumulated depreciation	<u>(46,027,192)</u>
	23,045,746
Construction in progress	<u>294,514</u>
	<u>\$ 23,340,260</u>

Depreciation expense was \$1,698,098 for 2021.

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, 2021, the value recorded for the beneficial interest in trusts is comprised of the following:

JP Morgan Chase Bank Trust #03152009	\$ 57,021,359
JP Morgan Chase Bank Trust #03583005	37,232,523
JP Morgan Chase Bank Trust #98940006	6,481,580
JP Morgan Chase Bank Trust #98843002	4,513,327
JP Morgan Chase Bank Trust #03152306	1,512,473
JP Morgan Chase Bank Trust #03583302	1,006,260
SunTrust Bank Trust #13214200	2,268,512
Bank of America (formerly U.S. Trust Co. of New York #239550)	1,110,079
Bank of New York #676580	138,463
Bank of New York #676730	79,824
Bank of New York #676760	<u>59,842</u>
	<u>\$ 111,424,242</u>

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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 year.

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, 2021

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, 2021.

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.

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 at fair value at December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Trading securities:				
Equity securities - US large cap	\$ 11,051,384	\$ -	\$ -	\$ 11,051,384
Equity securities - US mid/small cap	1,060,191	-	-	1,060,191
Equity securities - Non US	1,229,811	-	-	1,229,811
Equity securities - Preferred stocks	237,210	-	-	237,210
Equity securities - Concentrated and other equity	354,935	-	-	354,935
Fixed income securities - US bond	-	3,601,434	-	3,601,434
Fixed income securities - Non US bond	-	<u>321,257</u>	-	<u>321,257</u>
	13,933,531	3,922,691	-	17,856,222
Pledges receivable	-	-	1,348,988	1,348,988
Beneficial interest in trusts	-	-	<u>111,424,242</u>	<u>111,424,242</u>
Total assets at fair value	<u>\$ 13,933,531</u>	<u>\$ 3,922,691</u>	<u>\$112,773,230</u>	<u>\$130,629,452</u>

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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 - December 31, 2020	\$ 1,100,456	\$101,600,740
New pledges	929,082	-
Pledge collections	(678,020)	-
Pledges written off	(2,530)	-
Distributions from Trusts	-	(4,368,152)
Adjustment to fair value	-	<u>14,191,654</u>
Balance - December 31, 2021	<u>\$ 1,348,988</u>	<u>\$111,424,242</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 \$164,757 to the Plan during 2021.

10. 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 \$2,768,165 at December 31, 2021.

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 \$73,980 at December 31, 2021.

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS December 31, 2021

10. Deferred Revenue (Continued)

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 \$176,793 at December 31, 2021.

Additionally, the Museum had various deferred amounts of \$29,959 at December 31, 2021, 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.

11. 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 was due monthly through April 1, 2027. The bond contained a provision that allowed the interest rate to be adjusted up to take into consideration the Maximum Federal Corporate Tax Rate affecting the Lender. The Museum had been notified that the rate may be adjusted upwards in order to maintain the same after tax yield for the Lender. On April 1, 2018, the Museum began annual principal payments of \$960,000 which extended through April 1, 2027, when the bond was due and payable in full. This bond was paid off in 2021 when the Museum entered into the agreement discussed below.

On November 1, 2021, the Museum refinanced its bond arrangement with another financial institution. The Museum was issued a \$6,000,000 fixed rate bank qualified tax-exempt bond, which is unsecured. This new bond issue retired the previous debt. The fixed interest rate of the bond is 2.17% with principal and interest of \$39,061 payable monthly beginning December 1, 2021, through November 1, 2036, when the bond is due and payable in full. The Museum was in compliance with all financial covenants at December 31, 2021. The total interest expense related to these two bond arrangements was \$347,377 for 2021.

(Continued)

THE MARINERS' MUSEUM

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

11. Bond Payable (Continued)

Future minimum principal payments are as follows:

<u>Year Ending December 30,</u>	
2022	\$ 342,607
2023	350,116
2024	357,789
2025	365,631
2026	373,645
Thereafter	<u>4,178,746</u>
	<u>\$ 5,968,534</u>

The Board of Trustees has set aside investments with a value of \$5,452,029 at December 31, 2021, for the purpose of repaying the bond's principal as it comes due.

12. 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, 2021

12. 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, 2021, 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	\$ -	\$ 9,502,288	\$ 9,502,288

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	\$ -	\$ 7,683,682	\$ 7,683,682
Investment return, net	-	1,158,441	1,158,441
Contributions	-	660,165	660,165
Endowment Fund net assets, end of year	<u>\$ -</u>	<u>\$ 9,502,288</u>	<u>\$ 9,502,288</u>

(Continued)

THE MARINERS' MUSEUM

**NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

13. 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, 2021:

Subject to expenditure for specific purpose:	
Program restrictions, including gallery and exhibit funds, artifacts and collection	\$ 3,488,545
Not subject to appropriation or expenditure:	
Beneficial interest in trusts, a portion of the spending rate which is available to support operations	111,424,242
Endowment funds	<u>9,502,288</u>
	<u>\$ 124,415,075</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>685,941</u>

14. Net Assets without Donor Restrictions - Board Designated

At December 31, 2021, \$9,458,947 of net assets without donor restrictions are designated by the Board for bond repayment, gallery upgrades, and plant and equipment costs.

15. 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 \$275,864 at December 31, 2021. 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, 2021

15. Leasing Arrangements (Continued)

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

<u>Year Ending</u> <u>December 31,</u>	
2022	\$ 2,500
2023	2,500
2024	<u>2,500</u>
	<u>\$ 7,500</u>

The Museum also has other lease agreements for portions of the Museum's land. The significant agreements are described in Note 10.

16. Paycheck Protection Program Loan Forgiveness

In March 2021, 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 \$1,097,024 (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 2021 and received loan forgiveness from the SBA on March 14, 2022. As a result, the Museum has accounted for the PPP loan in accordance with FASB ASC 958-605 as a conditional contribution.

17. Employee Retention Credit

Beginning 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, and 70% of the qualified wages paid to employees after December 31, 2020, through June 30, 2021. Eligible employers 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 2021 employer's federal tax returns (941's) and has appropriately reduced payroll tax deposits in 2021. The total credit claimed and received by the Museum related to 2021 is \$968,952.

18. COVID-19 Uncertainty

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.