



The Mariners' Museum

Financial Report

December 31, 2023

The Mariners' Museum

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Independent Auditor's Report

Board of Trustees
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, 2023, 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, 2023, 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 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
August 7, 2024



Financial Statements

The Mariners' Museum
Statement of Financial Position
December 31, 2023

ASSETS

CURRENT ASSETS

Cash and cash equivalents, operating accounts	\$ 2,184,247
Accounts receivable - other	79,637
Current portion of pledges receivable, net (Notes 4 and 8)	774,343
Inventories	50,983
Other current assets	16,401
Total current assets	3,105,611

PROPERTY AND EQUIPMENT, net (Note 6)

22,689,670

OTHER ASSETS

Pledges receivable, net, less discount and current portion (Notes 4 and 8)	1,078,250
Investments:	
Cash and cash equivalents, investment accounts (Note 5)	6,812,591
Investments (Notes 5 and 8)	15,780,744
Beneficial interest in trusts (Notes 7 and 8)	98,125,358
Total other assets	121,796,943
	\$ 147,592,224

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 405,797
Accrued expenses	540,196
Current portion of deferred revenue (Note 10)	80,226
Current portion of bond payable (Note 11)	357,789
Total current liabilities	1,384,008

LONG-TERM LIABILITIES

Deferred revenue, less current portion (Note 10)	2,810,849
Bond payable, less current portion (Note 11)	4,918,037
Total liabilities	9,112,894

NET ASSETS

Without donor restrictions:	
Undesignated	\$ 15,613,420
Board designated (Note 14)	2,986,103
Total net assets without donor restrictions	18,599,523
With donor restrictions:	
Restricted by purpose (Note 13)	3,531,400
Restricted by perpetuity (Note 13)	116,348,407
Total net asset with donor restrictions	119,879,807
Total net assets	138,479,330
	\$ 147,592,224

The Mariners' Museum

Statement of Activities Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES			
Income from funds held in trust by others	\$ 4,648,719	\$ 7,679,393	\$ 12,328,112
Realized and unrealized losses on investments, net	1,686,131	1,642,586	3,328,717
Contributions	645,017	1,768,046	2,413,063
Dividend and interest income, net	138,214	449,848	588,062
Contracts	259,174	-	259,174
Lease	137,996	-	137,996
Facility rental	82,813	-	82,813
Museum shop	131,665	-	131,665
Miscellaneous	67,123	31,865	98,988
Admission fees	73,367	-	73,367
Photography	31,959	-	31,959
Education program fees	21,645	-	21,645
Boat rental	7,267	-	7,267
Net assets released from restrictions (Note 13)	1,075,880	(1,075,880)	-
Total revenue, gains and support	<u>9,006,970</u>	<u>10,495,858</u>	<u>19,502,828</u>
PROGRAM EXPENSES			
Access	1,665,538	-	1,665,538
Value	2,287,173	-	2,287,173
Research	2,588,739	-	2,588,739
Conservation	2,799,498	-	2,799,498
Total program expenses	<u>9,340,948</u>	<u>-</u>	<u>9,340,948</u>
SUPPORTING EXPENSES			
Management and general	713,019	-	713,019
Fundraising expenses	1,296,805	-	1,296,805
Total supporting expenses	<u>2,009,824</u>	<u>-</u>	<u>2,009,824</u>
Total expenses	<u>11,350,772</u>	<u>-</u>	<u>11,350,772</u>
Change in net assets	(2,343,802)	10,495,858	8,152,056
NET ASSETS			
Beginning of year	<u>20,943,325</u>	<u>109,383,949</u>	<u>130,327,274</u>
End of year	<u>\$ 18,599,523</u>	<u>\$ 119,879,807</u>	<u>\$ 138,479,330</u>

The Mariners' Museum

Statement of Functional Expenses Year Ended December 31, 2023

	Program Services				Total Program Services	Supporting Services	
	Access	Value	Research	Conservation		General and Administrative	Fundraising
EXPENSES							
Salaries and wages	\$ 664,821	\$1,117,862	\$1,403,504	\$ 1,435,509	\$4,621,696	\$ 255,602	\$ 889,060
Depreciation	357,293	357,293	357,293	357,293	1,429,172	185,279	12,080
Employee benefits	154,305	249,696	310,513	317,953	1,032,467	61,643	190,873
Occupancy	163,890	163,890	163,890	166,184	657,854	84,987	5,543
Repair and maintenance	72,726	83,247	74,853	118,633	349,459	37,596	7,125
Other	76,012	125,163	144,051	182,743	527,969	21,541	36,615
Information technology	76,702	20,464	23,384	20,464	141,014	10,612	1,231
Outside services	16,521	51,514	19,171	74,241	161,447	8,567	52,995
Office expenses	16,280	23,609	21,975	30,361	92,225	6,038	30,750
Interest (Note 11)	26,060	26,058	26,058	26,058	104,234	13,513	881
Event/program costs	6,455	22,580	6,715	6,412	42,162	4,214	19,955
Insurance	19,380	19,380	19,380	19,380	77,520	10,049	6,594
Travel	8,008	18,476	8,200	7,860	42,544	12,465	5,841
Conferences/meetings	478	6,768	9,479	35,876	52,601	780	5,252
Advertising	273	1,173	273	531	2,250	133	32,000
Exhibition costs	6,334	-	-	-	6,334	-	-
	\$1,665,538	\$2,287,173	\$2,588,739	\$ 2,799,498	\$9,340,948	\$ 713,019	\$ 1,296,805

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

The Mariners' Museum

Statement of Cash Flows

Year Ended December 31, 2023

OPERATING ACTIVITIES

Change in net assets	\$ 8,152,056
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	1,626,537
Realized and unrealized gains on investments:	
Funds held in trust by others	(7,679,393)
Investments	(3,328,717)
Contributions for endowment	(468,649)
Contributions for property and equipment	(378,545)
Change in assets and liabilities:	
Accounts receivable - other	(1,974)
Pledges receivable	701,106
Inventories	25,038
Other current assets	124,663
Accounts payable	184,550
Accrued expenses	14,454
Deferred revenue	(73,801)
Net cash used by operating activities	<u>(1,102,675)</u>

INVESTING ACTIVITIES

Property and equipment acquisitions	(1,464,601)
Sales and maturities of investments	4,979,196
Purchases of investments	(4,794,071)
Net cash used by investing activities	<u>(1,279,476)</u>

FINANCING ACTIVITIES

Payments on long-term debt	(350,101)
Proceeds from contributions for endowment	468,649
Proceeds from contributions for property and equipment	378,545
Net cash provided by financing activities	<u>497,093</u>
Net decrease in cash and cash equivalents	<u>(1,885,058)</u>

CASH AND CASH EQUIVALENTS

Beginning of year	10,881,896
End of year	<u>\$ 8,996,838</u>

CASH AND CASH EQUIVALENTS, end of year

Held in operating accounts	\$ 2,184,247
Held in investment accounts	6,812,591
Cash and cash equivalents, end of year	<u>\$ 8,996,838</u>

SUPPLEMENTAL DISCLOSURES

Cash paid for interest	<u>\$ 118,628</u>
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The Mariners' Museum

Notes to Financial Statements

December 31, 2023

Note 1 - Organization and Nature of Activities

The Mariners' Museum (the "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 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 five 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.

Note 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.

The Mariners' Museum
Notes to Financial Statements
December 31, 2023

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 \$50,983 at December 31, 2023.

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:

Buildings and improvements	5 – 40 years
Furniture and equipment	2 – 20 years
Land improvements	10 – 20 years
The Noland Trail	20 years

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.

The Mariners' Museum
Notes to Financial Statements
December 31, 2023

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 \$14,956 in 2023, which were not collection items. Additionally, the Museum received volunteer hours of 14,316 in 2023. 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.

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.

The Mariners' Museum
Notes to Financial Statements
December 31, 2023

Advertising Costs

Advertising costs are expensed as incurred and were \$34,383 during 2023. Advertising costs are included in various programs 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, 2023, the Museum had approximately \$8,682,000 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.

Concentrations

The Museum has received revenue from two donors that amounted to 30% of total contributed revenue during 2023.

Subsequent Events

In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through August 7, 2024, the date the financial statements were available to be issued.

Note 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 Mariners' Museum
Notes to Financial Statements
December 31, 2023

The following table reflects the Museum's financial assets as of December 31, 2023, 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	\$ 8,996,838
Accounts receivable - other	79,637
Current portion of pledges receivable	774,343
Investments	15,780,744
	<u>25,631,562</u>
Less amounts unavailable for general expenditure within one year:	
Cash and cash equivalents, investment accounts	(6,812,591)
Current portion of pledges receivable restricted for purpose	(353,983)
Board designated investments, not including board approved draws of \$2,055,560 and bond repayment of \$468,730	(2,299,385)
Investments restricted by purpose and perpetuity	(10,957,070)
	<u>(20,423,029)</u>
Total financial assets available within one year	\$ 5,208,533

Note 4 - Pledges Receivable

The Museum records pledges receivable as income in the year the promise is received. For the year ended December 31, 2023, there were pledges due in more than one year, that were reflected at the present value of estimated future cash flows using a discount rate, which is reflected as a discount and will be amortized over the life of the associated pledges. For the discount rate, the Museum has elected to use the two year daily treasury yield curve which was 4.23% at December 31, 2023. Pledges receivable include the following at December 31:

The Monitor Center campaign	\$ 320,000
General operating and library support	1,532,593
	<u>\$ 1,852,593</u>

The anticipated cash flows from pledges receivable is as follows:

Gross pledges receivable	\$ 2,056,843
Less allowance for uncollectible pledges	(150,000)
Less unamortized discount on pledge receivables	(54,250)
Net pledges receivable	1,852,593
Less current portion	(774,343)
Net long-term portion	\$ 1,078,250

The Mariners' Museum
Notes to Financial Statements
December 31, 2023

Note 5 - Investments

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

Fixed income - US bond funds	\$ 2,709,860
Fixed income - Non US bond funds	303,585
Equity securities - US large cap	11,307,369
Equity securities - US mid cap/small cap	730,947
Equity securities - Concentrated and other equity	156,795
Private investments	572,188
	\$ 15,780,744

The investments are under the management of JP Morgan Chase Bank. At December 31, 2023, \$6,812,591 of cash and cash equivalents is held in the JP Morgan Chase Bank investment accounts.

At December 31, 2023, fair values and unrealized gains are summarized as follows:

	Cost	Fair Value	Unrealized Gain
JP Morgan Chase Bank	\$ 10,942,668	\$ 15,780,744	\$ 4,838,076

Note 6 - Property and Equipment

Property and equipment consist of the following at December 31, 2023:

Building and improvements	\$ 55,636,405
Land improvements	4,656,952
Furniture and equipment	8,245,475
The Noland Trail	2,219,802
Lakes, dams, and improvements	626,901
	71,385,535
Accumulated depreciation	(49,247,733)
	22,137,802
Construction in progress	551,868
	\$ 22,689,670

Depreciation expense was \$1,626,537 for 2023.

Note 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.

The Mariners' Museum
Notes to Financial Statements
December 31, 2023

At December 31, 2023, the value recorded for the beneficial interest in trusts is comprised of the following:

JP Morgan Chase Bank Trust #03152009	\$ 50,953,001
JP Morgan Chase Bank Trust #03583005	32,662,966
JP Morgan Chase Bank Trust #98940006	5,304,169
JP Morgan Chase Bank Trust #98843002	3,748,524
JP Morgan Chase Bank Trust #03152306	1,377,016
JP Morgan Chase Bank Trust #03583302	908,168
Truist Bank Trust #13214200	1,944,302
Bank of America (formerly U.S. Trust Co. of New York #239550)	969,580
Bank of New York #676580	128,849
Bank of New York #676730	73,212
Bank of New York #676760	55,571
	<u>\$ 98,125,358</u>

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.

Note 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 Mariners' Museum
Notes to Financial Statements
December 31, 2023

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.

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, 2023.

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.

Private investments: Valued using the fair value of the underlying assets 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, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Trading securities:				
Equity securities - US large cap	\$ 11,307,369	\$ -	\$ -	\$ 11,307,369
Equity securities - US mid/small cap	730,947	-	-	730,947
Equity securities - Concentrated and other equity	156,795	-	-	156,795
Fixed income securities - US bond	-	2,709,860	-	2,709,860
Fixed income securities - Non US bond	-	303,585	-	303,585
	<u>12,195,111</u>	<u>3,013,445</u>	<u>-</u>	<u>15,208,556</u>
Pledges receivable	-	-	1,852,593	1,852,593
Beneficial interest in trusts	-	-	98,125,358	98,125,358
Private investments	-	-	572,188	572,188
Total assets at fair value	<u>\$ 12,195,111</u>	<u>\$ 3,013,445</u>	<u>\$ 100,550,139</u>	<u>\$ 115,758,695</u>

The Mariners' Museum
Notes to Financial Statements
December 31, 2023

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

	Pledges Receivable	Beneficial Interest in Trusts
Balance - December 31, 2022	\$ 2,553,699	\$ 90,445,965
Pledge collections	(738,276)	-
Change in pledge discount	37,170	-
Distributions from Trusts	-	(4,648,719)
Adjustment to fair value	-	12,328,112
Balance - December 31, 2023	\$ 1,852,593	\$ 98,125,358

Note 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 \$179,877 to the Plan during 2023.

Note 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 \$2,629,757 at December 31, 2023.

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 \$67,480 at December 31, 2023.

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 \$161,249 at December 31, 2023.

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Additionally, the Museum had various deferred amounts of \$32,589 at December 31, 2023, 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.

Note 11 - Bond Payable

On November 1, 2021, 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 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, 2023. The total interest expense related to this bond arrangement was \$118,628 for 2023.

Future minimum principal payments are as follows:

<u>Year Ending</u>		
2024	\$	357,789
2025		365,631
2026		373,645
2027		381,834
2028		390,203
Thereafter		3,406,724
	<u>\$</u>	<u>5,275,826</u>

The Board of Trustees has set aside investments with a value of \$1,750,774 at December 31, 2023, for the purpose of repaying the bond or other museum costs as designated by the Board.

Note 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.

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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, 2023, are presented below.

Donor-designated endowment net asset composition is as follows at December 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-designated endowment funds	\$ -	\$ 18,223,049	\$ 18,223,049

Changes in endowment net assets were as follows at December 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Fund net assets, beginning of year	\$ -	15,841,262	15,841,262
Investment return, net	-	1,967,388	1,967,388
Contributions	-	414,399	414,399
Endowment Fund net assets, end of year	\$ -	18,223,049	18,223,049

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Note 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, 2023:

Subject to expenditure for specific purpose:	
Program restrictions, including gallery and exhibit funds, artifacts and collection	\$ 3,531,400
Not subject to appropriation or expenditure:	
Beneficial interest in trusts, a portion of the spending rate which is available to support operations	98,125,358
Endowment funds	18,223,049
	<u>\$ 119,879,807</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>\$ 1,075,880</u>

Note 14 - Net Assets without Donor Restrictions - Board Designated

At December 31, 2023, \$2,986,103 of net assets without donor restrictions are designated by the Board for bond repayment, gallery upgrades, and plant and equipment costs.

Note 15 - Leasing Arrangements

The Museum leases a 5,400 square foot building to the 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 \$309,007 at December 31, 2023. 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. Future minimum payments on the lease for 2024 are \$2,500.

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