



**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
FEBRUARY 29, 2016**

CHESAPEAKE BAY MARITIME MUSEUM, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 29, 2016

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130 Admiral Cochrane Drive, Suite 200 • Annapolis, MD 21401  
Office: 410.224.0343 • Fax: 410.224.0043

### Independent Auditor's Report

To the Board of Directors  
Chesapeake Bay Maritime Museum, Inc.  
St. Michaels, Maryland

We have audited the accompanying financial statements of Chesapeake Bay Maritime Museum, Inc. (a nonprofit organization), which comprise the statement of financial position as of February 29, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

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

#### **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 Chesapeake Bay Maritime Museum, Inc. as of February 29, 2016, 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.

*Toal, Griffith + Ragula, LLC*

May 10, 2016

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
STATEMENT OF FINANCIAL POSITION  
FEBRUARY 29, 2016

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 2,146,184
Accounts and Grants Receivable	137,413
Contributions Receivable, Current Portion, Net of Allowance	532,866
Museum Store Inventories	53,146
Boat Shop Inventory	22,317
Prepaid Expenses	47,171
Total Current Assets	2,939,097

PROPERTY AND EQUIPMENT

9,432,334

OTHER ASSETS

Contributions Receivable, Net of Current Portion and Allowance	1,334,808
Split-Interest Agreements Receivable	522,417
Planned Gifts Investments at Fair Value	5,478
Investments at Fair Value	9,354,864
Total Other Assets	11,217,567

Total Assets	\$ 23,588,998
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 79,107
Accrued Salaries and Related Expenses	110,761
Deferred Income and Deposits	172,913
Total Current Liabilities	362,781

Total Liabilities	362,781
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NET ASSETS

Unrestricted Undesignated	8,252,952
Unrestricted - Board Designated for Endowment	1,531,300
Total Unrestricted	9,784,252
Temporarily Restricted	3,136,732
Permanently Restricted	10,305,233

Total Net Assets	23,226,217
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Total Liabilities and Net Assets	\$ 23,588,998
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See independent auditor's report and accompanying notes to financial statements.

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND OTHER SUPPORT</b>				
Contributions	\$ 1,046,533	\$ 2,243,643	\$ -	\$ 3,290,176
Membership	485,121	-	-	485,121
Grants	160,197	-	-	160,197
Special Events	240,367	-	-	240,367
General Admissions	606,375	-	-	606,375
Grounds Rentals	162,314	-	-	162,314
Educational Programs	104,647	-	-	104,647
Changes in the Value of				
Split-Interest Agreements	31,046	-	-	31,046
Investment Income	4,002	259,394	-	263,396
Realized Gain on Investments	-	324,004	-	324,004
Unrealized Loss on Investments	(998)	(1,324,155)	-	(1,325,153)
Museum Store Gross Profit, Net of Costs of Goods Sold of \$126,984	140,452	-	-	140,452
Rental Income	20,247	-	-	20,247
Sales of Donated Boats	587,103	-	-	587,103
Gain (Loss) on Disposal of Fixed Assets	(5,825)	-	-	(5,825)
Other Income	18,673	-	-	18,673
Net Assets Released from Restrictions	<u>1,529,144</u>	<u>(1,524,588)</u>	<u>(4,556)</u>	<u>-</u>
 Total Revenues and Other Support	 5,129,398	 (21,702)	 (4,556)	 5,103,140
<b>EXPENSES</b>				
Program Services	3,285,210	-	-	3,285,210
Administrative	664,988	-	-	664,988
Fundraising	473,970	-	-	473,970
 Total Expenses	 <u>4,424,168</u>	 <u>-</u>	 <u>-</u>	 <u>4,424,168</u>
 Change in Net Assets	 705,230	 (21,702)	 (4,556)	 678,972
 Net Assets at Beginning of Year	 <u>9,079,022</u>	 <u>3,158,434</u>	 <u>10,309,789</u>	 <u>22,547,245</u>
 Net Assets at End of Year	 <u>\$ 9,784,252</u>	 <u>\$ 3,136,732</u>	 <u>\$ 10,305,233</u>	 <u>\$ 23,226,217</u>

See independent auditor's report and accompanying notes to financial statements.

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED FEBRUARY 29, 2016

	<u>Program Services</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Collection and Library Acquisition	\$ 1,615	\$ -	\$ -	\$ 1,615
Contribution	-	2,250	-	2,250
Depreciation	714,985	-	-	714,985
Exhibit	94,267	-	-	94,267
Insurance	200,410	23,015	18,048	241,473
Interest and Finance Charges	-	29,897	-	29,897
Investment Fees	-	33,593	-	33,593
Maintenance	156,462	-	-	156,462
Membership	1,039	5,780	9,120	15,939
Miscellaneous	45,605	13,036	80,763	139,404
Occupancy and Utilities	111,025	6,850	4,110	121,985
Office Expense	79,072	39,023	8,548	126,643
Other Education Expense	5,082	-	-	5,082
Payroll Taxes	100,159	30,335	12,491	142,985
Pension Plan	57,650	20,509	8,068	86,227
Postage and Shipping	14,149	1,355	8,963	24,467
Printing and Publications	32,233	-	37,506	69,739
Professional Fees	81	31,711	11,766	43,558
Programs	125,711	-	-	125,711
Promotion	164,796	-	26,341	191,137
Salaries	1,321,156	419,121	125,531	1,865,808
Special Events	-	-	118,000	118,000
Staff Development	-	2,951	-	2,951
Supplies and Equipment	39,039	-	1,531	40,570
Telephone	16,600	2,814	1,807	21,221
Travel	4,074	2,748	1,377	8,199
<b>Total Expenses</b>	<b>\$ <u>3,285,210</u></b>	<b>\$ <u>664,988</u></b>	<b>\$ <u>473,970</u></b>	<b>\$ <u>4,424,168</u></b>

See independent auditor's report and accompanying notes to financial statements.

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 678,972
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided by Operating Activities:	
Depreciation	714,985
Restricted Donated Securites	(285,258)
Loss on Disposal of Assets	5,825
Realized Gain on Sale of Investments	(324,004)
Unrealized Loss on Investments	1,325,153
Allowance for Uncollectible Pledges	101,125
(Increase) Decrease in:	
Accounts and Grants Receivable	(45,757)
Split-Interest Receivable	4,556
Contributions Receivable	(1,087,753)
Inventory	4,329
Boat Shop Inventory	3,044
Prepaid Expenses	10,761
Planned Gifts Investments at Fair Value	5,145
Increase (Decrease) in:	
Accounts Payable	(6,631)
Accrued Salaries and Related Expenses	4,291
Deferred Revenue and Security Deposits	(27,331)
Net Cash Provided by Operating Activities	<u>1,081,452</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Property and Equipment	(581,324)
Sale of Property and Equipment	1,500
Proceeds from Sale of Investments	3,375,848
Purchase of Investments	(3,596,512)
Net Cash Used for Investing Activities	<u>(800,488)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Net Cash Used for Financing Activities	<u>-</u>
Net Increase in Cash and Cash Equivalents	280,964
Cash and Cash Equivalents, Beginning of Year	<u>1,865,220</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,146,184</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Interest Paid	\$ <u>                    </u>
Income Taxes Paid	\$ <u>                    </u>

See independent auditor's report and accompanying notes to financial statements.



CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

By offering unique educational experiences, the Chesapeake Bay Maritime Museum, Inc. (the Museum) inspires broad public stewardship of the Bay's cultural traditions and places.

The Chesapeake Bay Maritime Museum is a center for education, exhibition, and preservation, and a valued partner in a comprehensive movement to sustain a healthy and vital Chesapeake Bay region.

The Museum is supported by contributions and grants, membership, admissions and educational programs, endowment income, and Museum store sales.

Basis of Accounting

The financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the financial statements reflect all significant receivables, payables and other liabilities.

Basis of Presentation

The Museum's financial reporting classifies resources, for accounting and reporting purposes, into three net asset categories according to externally (donor) imposed restrictions. The Museum records unconditional promises to give (pledges) as receivables and revenues and distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. A description of the three net asset categories follows.

- Permanently Restricted - the portion of the net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Museum pursuant to those stipulations.
- Temporarily Restricted - the portion of the net assets resulting from contributions or other inflows of assets whose use by the Museum is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Museum pursuant to those stipulations.
- Unrestricted - the portion of the net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 1 - SUMMARY OF SIGNIFIGANT 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 as of the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Auxiliary Organizations

Auxiliary Organizations currently include three groups: the Model Guild of the Chesapeake Bay Maritime Museum, the Model Skipjack Club of the Chesapeake Bay Maritime Museum, and the Academy for Lifelong Learning at the Chesapeake Bay Maritime Museum.

The Model Guild was formed to provide model-building skills for Museum projects. Materials and tools for construction projects are financed by donations and the sale of models and model kits.

The Model Skipjack Club is an organization formed to promote and stimulate interest in historic Chesapeake Bay craft through the building and sailing of model boats.

The Academy of Lifelong Learning provides educational experiences, such as lectures, primarily for mature participants.

Cash, Cash Equivalents, and Certificates of Deposit

The Museum considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Fair value approximates the carrying amount of cash and cash equivalents.

Accounts Receivable

Accounts receivable arise from docking fees, store sales, exchange transaction grants, and other sources. No interest or late fees are charged on past due receivables. An allowance for doubtful accounts is recorded when management identifies past due accounts as potentially uncollectible; these accounts are written off in the period when management deems them uncollectible. At February 29, 2016, management has performed an analysis of outstanding balances and historical collection experience and deemed an allowance of \$101,125 necessary.

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventory is stated at the lower of cost or market. Cost is determined by first-in, first-out method, and market represents the lower of replacement cost or estimated net realizable value.

Land, Buildings and Equipment

The properties and equipment owned by the Museum are capitalized at cost if purchased, or at fair market value if donated, if value is over \$5,000 at date of purchase or gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Exhibits purchased or constructed by the Museum are recorded in the plant fund at cost.

The Museum depreciates its properties, exhibits and equipment outside of the permanent collection over their estimated useful lives by a level charge (straight line method). The Museum has recorded a value for all of its boats that are used in floating exhibits outside of the permanent collection.

Expenditures for maintenance and repairs are charged against operations. Renewals for betterments that materially extend the life of an asset are capitalized.

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. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the changes in unrestricted net assets unless the donor or law restricts the income or loss.

Fair Value Measurement

Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. For certain long-term debt, the fair value was based on present value techniques using inputs derived principally or corroborated from market data. Financial assets and liabilities using level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied. All assets have been valued using a market approach. The Museum recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Changes in the fair value of level 3 investments are reported under unrealized gain (loss) on investments in the statement of activities and changes in net assets. Fair value for the contribution receivable from a beneficial interest in a charitable lead annuity trust is determined by calculating the present value of the annuity using published life expectancy tables and a 6.58% discount rate. Fair value for the contribution receivable from a beneficial interest in a charitable lead unitrust is determined by calculating the present value of the quarterly distributions using published life expectancy tables and a 6.25% discount rate. Fair value for the contribution receivable from a beneficial interest in a charitable remainder trust is based on the Museum's charitable remainder interest of the trust as calculated on the date of donation and based on life expectancy of the income beneficiaries. Changes in the value of split-interest agreements are presented as a separate line item on the statement of activities and changes in net assets. Cash surrender value of life insurance is determined from analysis performed by the policy provider. Changes in the cash surrender value are included in other income on the statement of activities and changes in net assets.

Investment Risks

The Museum's investment portfolios are professionally managed and contain preferred and common shares and bonds of publicly traded companies, corporate bonds, U.S. government obligations, mutual funds, and money market funds. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that market conditions would materially affect investment balances and the amounts reported in the financial statements.

Endowment

Endowment funds consist of funds that have been invested for the purpose of producing income to be used for maintenance of floating exhibits, buildings and grounds and other operating expenses, such as educational and curatorial purposes. These funds include contributions both restricted (permanently or temporarily) by donors for these purposes and unrestricted funds designated by the Executive Committee.

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

Endowment (Continued)

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 permanently restricted net assets (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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by SPMIFA. 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.

The Museum's endowment is comprised of donor-restricted and Board-designated funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Funds that are specifically designated by the donor to be contributed to the endowment fund are placed in designated component funds. The use of endowment funds that are donor-restricted for a specific purpose are strictly restricted for that specified purpose. Endowment funds that are not specifically directed are placed in the general purpose endowment fund.

Contributions to the endowment fund may be in the form of cash, securities, bequests, trusts, or other planned gifts. In addition, the Board of Directors of the Museum bear the right to reject any contribution that carries any restriction placed by the donor or otherwise, that is deemed by the Board to be inconsistent with the objectives and purposes of the Museum and its needs, to be incompatible with its endowment policy or to be illegal.

Donor-directed named endowment funds may be created for purposes consistent with this endowment policy. Such named funds are required to be in an amount sufficient to support the designated purpose as determined by the Board of Directors.

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

Endowment (Continued)

For investing purposes, endowment funds may be commingled consistent with legal and/or regulatory provisions. However, each directed gift is accounted for separately, although unnamed gifts directed for the same purpose may be accounted for in the aggregate.

Income from that portion of specified purpose endowment funds may be distributed only for such purpose. The Board of Directors, at their discretion, may distribute that portion of income from the general purpose endowment fund for any purpose consistent with the purposes of the Museum.

The Museum seeks to maximize total return relative to appropriate risk, and achieve growth of endowment total return after distributions which, over time, will exceed the rate of inflation. The endowment is diversified among various asset classes and individual holdings to maximize return with reasonable and prudent levels of risk, to reduce fluctuations in returns and minimize the risk of losses. The allocation range will not exceed 85% in equities, both domestic and foreign, on an aggregate basis.

In order to preserve the real value of the endowment fund principal, the Board of Directors determines a distribution rate that reflects a reasonable balance between current spending outlays and reinvestment to support spending in the future. The objective is that over the long-term, distributions do not exceed real investment return (total endowment return less inflation). Annually, the Board will approve the subsequent year's distribution, based on historical fund activity. The distributions are made quarterly in equal amounts.

Collection

The Museum's collection is made up of artifacts of historical significance and art objects that are held for educational, research and curatorial purposes. The collection includes a number of accessioned boats. Each of the items is catalogued, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collection is subject to a policy that requires proceeds from the sale of collection assets to be used to acquire other items for the collection.

The collection, which has been acquired through purchases and contributions since the Museum's inception, is not recognized as an asset on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets if the assets used to purchase the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as changes in the appropriate net asset classes.

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Contributed services are recognized when the Museum would typically purchase such services if they were not donated and when such services require a specialized skill and are performed by an individual with that skill.

Contributed property and equipment are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as temporarily restricted support; in the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected over periods in excess of one year are recorded at the present value of the estimated cash flows beyond one year. The discounts on those amounts are computed using appropriate interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Conditional promises to give are not included as support until the conditions are substantially met. When collected prior to satisfaction of donor restrictions, amounts are reported as refundable advances.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Grants are recorded as revenue when received or when conditions of the grant agreement are met.

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

Donated Property

The Museum's policy is not to record an estimated value for property donated to it for resale purposes, but rather to record the contribution at the time of the sale. Equipment and furniture, unless used as part of the Museum's physical plant, are for sale as received as are donated boats.

Stock Contributions

Marketable securities received as contributions are usually sold with the proceeds allocated to the appropriate fund as specified by the donor or designated by the Executive Committee.

Membership Dues

Membership dues are recorded as support when received.

Volunteer Services

A substantial number of unpaid volunteers have made significant contributions of their time in the furtherance of the Museum's programs. The Museum has recorded a total of approximately 30,000 volunteer hours during the year ended February 29, 2016. The value of this contributed time is not reflected in these statements because it is not susceptible to objective measurement or valuation.

Allocation of Expenses

Expenses are allocated between program services, management and general support, and fundraising, in accordance with generally accepted accounting principles, and have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Compensated Expenses

The Museum accrues compensated absences. This amount is combined with accrued payroll (at the end of the fiscal year) and is included in liabilities.

Risk Management

The Museum is insured for general, property, liability coverage as well as worker's compensation and employee bonding. Insurance needs and coverage are reviewed annually.

Advertising

All advertising costs are expensed as incurred.



CHESAPEAKE BAY MARITIME MUSEUM, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (CONTINUED)

Tax Status

The Museum is exempt from income taxes under Internal Revenue Code 501(c)(3). In addition, the Museum has been classified as an organization that is not a private foundation under Section 509(a)(1). A portion of the income from the Museum store, certain docking fees, and property rentals may be subject to federal and state incomes taxes. For the year ended February 29, 2016 no income taxes were due.

The Museum’s informational return is subject to examination by the Internal Revenue Service and the State of Maryland, generally for the three years after it is filed.

Subsequent Events

The Museum evaluated subsequent events through the date that the financial statements were available to be issued. The Museum is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to May 10, 2016 that would have a material impact on the financial statements.

NOTE 2 - CREDIT RISK

The total cash balances are insured by the FDIC up to \$250,000 per bank. The Museum has cash balances on deposit at February 29, 2016 that exceeds the balance insured by the FDIC by approximately \$1,755,000. The Museum believes it is not exposed to any significant credit risk on cash and cash equivalents and has not experienced any losses on such accounts.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Unconditional promises to give receivables are part of the Museum’s capital fundraising efforts. Unconditional promises to give receivables at February 29, 2016 consist of the following:

Gross unconditional promises to give	\$ 2,032,487
Less allowance for uncollectible promises to give	(101,125)
Less unamortized discount	<u>(63,688)</u>
Net unconditional promises to give	\$ <u>1,867,674</u>
Amount due in:	
Less than one year	\$ 532,866
One to five years	<u>1,334,808</u>
Total contributions receivable	\$ <u>1,867,674</u>

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 3 - CONTRIBUTIONS RECEIVABLE (CONTINUED)

The Museum evaluated fiscal year 2016 collections together with the collection records of previous years of the most recent capital campaign and of previous fundraising campaigns and concluded that an allowance for uncollectible unconditional promises receivable of \$101,125 was necessary.

The discount was calculated using a risk-free rate of return of approximately 1%.

NOTE 4 - PROPERTY AND EQUIPMENT

The major classes of fixed assets and the estimated useful lives for depreciation purposes for the year ended February 29, 2016 are as follows. Land and construction in progress are not depreciated.

<u>Classification</u>		<u>Life/Years</u>
Land	\$ 807,306	---
Land Improvements	4,004,178	20
Buildings	12,809,562	25-40
Furniture and Equipment	645,908	5-10
Exhibits	2,567,177	10
Non-Accessioned Boats	431,641	20-40
Construction in Progress	<u>381,758</u>	---
Total Cost	21,647,530	
Accumulated Depreciation	<u>(12,215,196)</u>	
Net Property and Equipment	\$ <u>9,432,334</u>	

The State of Maryland retains an historical easement on the Small Boat Shed. Also, the State has a maintenance lien on the Knapps Narrows Bridge if prescribed maintenance is not performed by the Museum.

NOTE 5 - TRUSTS AND BEQUESTS

Split-interest agreement receivables at February 29, 2016 consist of the following:

Charitable Lead Annuity Trust	\$ 33,005
Charitable Lead Unitrust	454,899
Charitable Remainder Unitrusts	<u>34,513</u>
Total Split-Interest Agreement Receivables	\$ <u>522,417</u>

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 5 - TRUSTS AND BEQUESTS (CONTINUED)

Charitable Lead Annuity Trust

This trust was recorded at its net realizable value using a 6.58% interest rate based on a risk-free rate of return. At February 29, 2016, remaining distributions are shown net of discount as a split-interest receivable in the totals above.

Receivable in Less than One Year	\$ 12,804
Receivable in One to Five Years	<u>24,685</u>
Total Distributions Receivable	37,489
Less Discounts to Net Present Value	<u>(4,484)</u>
Net Distribution Receivable at February 29	\$ <u>33,005</u>

Charitable Lead Unitrust

This trust was recorded at its net realizable value using a 6.25% interest rate based on a risk-free rate of return. At February 29, 2016, quarterly distributions for thirty years are shown net of discount as a split-interest receivable in the total above:

Receivable in Less than One Year	\$ 15,971
Receivable in One to Five Years	63,883
Receivable in More than Five Years	<u>481,359</u>
Total Distributions Receivable	561,213
Less Discounts to Net Present Value	<u>(106,314)</u>
Net Distribution Receivable at February 29	\$ <u>454,899</u>

Charitable Remainder Trusts

The Museum is the irrevocable beneficiary of one charitable remainder annuity trust and one charitable remainder trust. These trusts are permanently restricted for the endowment and were recorded as capital campaign contributions based on the Museum's charitable remainder interest of the trust as calculated at the date of the donation and based on the life expectancy of the income beneficiaries. The trusts receivable at February 29, 2016 was \$34,513.

Other Trusts and Bequests

Several donors have notified the Museum that it will be a beneficiary of various trust agreements. The Museum's policy is to recognize such contributions if the beneficiary designation is irrevocable and the contribution amount can be estimated.

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 6 - FAIR VALUE MEASUREMENTS

The following table presents the Museum's fair value hierarchy for the assets and liabilities measured at fair value on a recurring basis as of February 29, 2016:

	Quoted Market Prices in Active Markets <u>(Level 1)</u>	Other Observable Inputs <u>(Level 2)</u>	Unobservable Inputs <u>(Level 3)</u>	<u>Total</u>
Investments:				
Money Market	\$ 505,739	\$ ---	\$ ---	\$ 505,739
Common Stocks	435,074	---	---	435,074
Fixed Income Mutual Funds	2,757,951	---	---	2,757,951
ETF Equity Mutual Funds	2,552,718	---	---	2,552,718
Equity Mutual Funds	3,078,382	---	---	3,078,382
MSCF Investment	<u>---</u>	<u>---</u>	<u>25,000</u>	<u>25,000</u>
Total Investments	9,329,864	---	25,000	9,354,864
Planned Gift Investments:				
Cash Surrender Value, Life Insurance	<u>---</u>	<u>---</u>	<u>5,478</u>	<u>5,478</u>
Total Planned Gift Investments	---	---	5,478	5,478
Split-Interest Agreements				
Receivable – Beneficial Interest in Charitable Lead Annuity Trust	---	33,005	---	33,005
Contribution Receivable – Beneficial Interest in Charitable Lead Unitrust	---	454,899	---	454,899
Contribution Receivable – Beneficial Interest in Charitable Remainder Trust	<u>---</u>	<u>---</u>	<u>34,513</u>	<u>34,513</u>
Total Beneficial Interest in Trusts Receivable	<u>---</u>	<u>487,904</u>	<u>34,513</u>	<u>522,417</u>
Total Assets at Fair Value	\$ <u>9,329,864</u>	\$ <u>487,904</u>	\$ <u>64,991</u>	\$ <u>9,882,759</u>

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

Assets are measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

	Mid-Shore Community Foundation <u>Investment</u>	Contribution Receivable - Beneficial Interest in Charitable Remainder <u>Trust</u>	Cash Surrender Value, Life <u>Insurance</u>	<u>Mortgages</u>
February 28, 2015	\$ 25,000	34,513	\$ 5,478	\$ 19,652
Gains (Losses)	---	---	---	---
Purchases	---	---	---	---
Settlements	<u>---</u>	<u>---</u>	<u>---</u>	<u>(19,652)</u>
February 29, 2016	\$ <u>25,000</u>	<u>34,513</u>	\$ <u>5,478</u>	\$ <u>---</u>

NOTE 7 - ACCOUNTS PAYABLE

The Museum has accounts payable totaling \$79,107 as of February 29, 2016. This amount comprised of the following balances:

Accounts Payable	\$ 57,136
Retirement Payable	<u>21,971</u>
Total	\$ <u>79,107</u>

The Museum allows all employees with at least 12 years of service to rollover one week of unused vacation each year to be paid at retirement (minimum age 55). This rollover is limited to a total of 8 weeks. If the employee or the Museum terminates employment prior to age 55 the retirement payable is forfeited.

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 8 - ENDOWMENT

Endowment net asset composition by type of fund as of February 29, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Net Assets</u>
Donor-Restricted Endowment Funds	\$ (1,675,889)	\$ 921,160	\$ 9,782,816	\$ 9,028,087
Board-Designated Endowment Funds	<u>1,531,300</u>	---	---	<u>1,531,300</u>
Total	\$ <u>(144,589)</u>	\$ <u>921,160</u>	\$ <u>9,782,816</u>	\$ <u>10,559,387</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Endowment Net Assets</u>
Endowment Net Assets, Beginning of Period	\$ (150,451)	\$ 2,022,376	\$ 9,582,816	\$ 11,454,741
Contributions	6,273	173,287	200,000	379,560
Investment Income, Net of Fees	120	225,819	---	225,939
Net Appreciation (Depreciation)	(531)	(1,000,322)	---	(1,000,853)
Reclassifications Amounts	---	---	---	---
Appropriated For Expenditure	---	<u>(500,000)</u>	---	<u>(500,000)</u>
Endowment Net Assets, End of Period	\$ <u>(144,589)</u>	\$ <u>921,160</u>	\$ <u>9,782,816</u>	\$ <u>10,559,387</u>

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes:

Endowment:	
Educational Program	\$ 88,924
Apprenticeship Program	16,283
Buildings/Campus	36,925
General	<u>779,028</u>
Total Temporarily Restricted Endowment	921,160
Time Restricted	1,968,799
Collection Acquisitions	8,630
Educational Programs	111,407
Building and Ground Improvements	8,308
Edmee S Restoration	376
Edna Lockwood Restoration	108,052
John Smith Shallop	<u>10,000</u>
 Total	 \$ <u>3,136,732</u>

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted as follows:

Endowment:	
Scholarships	\$ 2,238,244
Educational Programs	100,000
Center for Chesapeake Studies	972,201
Buildings/Campus	132,492
Historic Vessels	449,189
Sailing Programs	113,092
Apprentice Programs	74,043
Library/Curatorial	292,225
No Programmatic Restrictions	<u>5,411,330</u>
Total Permanently Restricted Endowment	9,782,816
Split-Interest Agreements	<u>522,417</u>
 Total	 \$ <u>10,305,233</u>

CHESAPEAKE BAY MARITIME MUSEUM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2016

NOTE 11 - SPECIAL EVENTS INCOME

During the year ended February 29, 2016, the Museum hosted one special event, the Boating Party.

Revenues:

Contributions	\$ 129,092
Special Event Revenue	<u>111,275</u>
Total Revenues	240,367
Less: Expenses	<u>118,000</u>
Increase in Unrestricted Net Assets	\$ <u>122,367</u>

NOTE 12 - EMPLOYEE PENSION PLANS

The Chesapeake Bay Maritime Museum, Inc. established a defined contribution plan with TIAA/CREF as of January 1, 1988. All employees, except those whose employment is incidental to the Museum's educational programs, are eligible to participate on a voluntary basis. Employees working more than 1,000 hours in a calendar year can participate (contribute) to the plan immediately. After a two-year (consecutive) waiting period, they can receive a 7% match if they contribute a minimum of 3% of their annual salary at the Museum.

All contributions are funded as accrued or withheld.

Effective July 25, 2006, The Chesapeake Bay Maritime Museum, Inc. established 457(b) private plan (deferred compensation) with TIAA-CREF. A 457(b) private plan is a retirement plan for highly compensated executives eliminating the twenty-four month waiting period requirement for the Museum's contribution.

The Chesapeake Bay Maritime Museum, Inc. participates in a retirement program (tax deferred annuity arrangement) under Internal Revenue Code 403(b) which allows eligible employees to set aside a portion of their salaries on a pre-tax basis. Chesapeake Bay Maritime Museum, Inc. contributes 7% of eligible employees' salaries.

The Chesapeake Bay Maritime Museum's contribution for the year ended February 29, 2016 was \$86,226.

NOTE 13 - ADVERTISING

Advertising expense was \$129,225 for the year ended February 29, 2016.