Financial Statements

Peabody Essex Museum, Inc.

June 30, 2021

PEABODY ESSEX MUSEUM, INC.

Financial Statements

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Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601
www.cbiz.com/newengland

Independent Auditors' Report

The Board of Trustees
Peabody Essex Museum, Inc.
Salem, Massachusetts

We have audited the accompanying financial statements of Peabody Essex Museum, Inc. (the "Museum"), which comprise the statement of financial position as of June 30, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Peabody Essex Museum, Inc. as of June 30, 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.

December 10, 2021
Boston, Massachusetts

Peabody Essex Museum, Inc.
Statement of Financial Position
June 30, 2021

Assets	
Current assets:	
Cash and cash equivalents	$ 9,533,105
Funds restricted for expansion project	7,450,008
Grants, ERC and other receivables	2,184,132
Pledges receivable	430,148
Inventories	537,595
Prepaid expenses	168,010
Total current assets	20,302,998
Noncurrent assets:	
Pledges receivable, net	3,175,232
Investments	610,934,319
Funds held by others	5,044,178
Assets and residual interests under split-interest agreements	2,317,641
Mortgages receivable - related party	300,143
Land, buildings and equipment	192,803,658
Total assets	$ 834,878,169
Liabilities and Net Assets	
Liabilities:	
Current liabilities:	
Accounts payable, operating	$ 1,283,723
Accounts payable, expansion project	277,928
Accrued expenses, operating	1,959,679
Other liabilities	211,327
Notes payable	3,257,341
Total current liabilities	6,989,998
Noncurrent liabilities:	
Notes payable	73,571,929
Other liabilities	78,903
Obligation under split-interest agreements	390,493
Total liabilities	81,031,323
Net assets:	
Without donor restrictions	169,731,507
With donor restrictions	584,115,339
Total net assets	753,846,846
Total liabilities and net assets	$ 834,878,169

See accompanying notes to the financial statements.

Peabody Essex Museum, Inc.
Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenue:			
Contributions	$ 2,261,301	$ 2,673,391	$ 4,934,692
Grants	85,000	-	85,000
Spending rate transfer appropriated for operations	19,345,303	-	19,345,303
Enterprise and other revenues	1,108,727	3,655	1,112,382
Admissions	874,687	-	874,687
Memberships	782,548	-	782,548
Satisfaction of program restrictions	2,019,739	(2,019,739)	-
PPP Loan forgiven	2,000,000	-	2,000,000
ERC applied for	1,975,400	-	1,975,400
Total operating support and revenue	30,452,705	657,307	31,110,012
Expenses:			
Program services:			
Exhibitions and publications	5,685,075	-	5,685,075
Curatorial and collections	7,065,836	-	7,065,836
Educational programs	1,249,498	-	1,249,498
Enterprises	1,174,789	-	1,174,789
Marketing and membership	2,434,868	-	2,434,868
Total program services	17,610,066	-	17,610,066
Supporting services:			
Development	2,178,262	-	2,178,262
Administrative	5,847,747	-	5,847,747
Total supporting services	8,026,009	-	8,026,009
Total program and supporting services	25,636,075	-	25,636,075
Changes in net assets from operations before interest expense	4,816,630	657,307	5,473,937
Interest expense	(2,518,281)	-	(2,518,281)
Changes in net assets from operations after interest expense	2,298,349	657,307	2,955,656
Nonoperating activities:			
Investment return net of amounts appropriated for operations	10,102,964	114,744,601	124,847,565
Change in value of split-interest agreements and funds held by others	-	2,266,809	2,266,809
Nonoperating grants	200,000	-	200,000
Depreciation	(8,876,242)	-	(8,876,242)
Plant related satisfaction of program restrictions	2,973,500	(2,973,500)	-
Collection items purchased	(535,342)	-	(535,342)
Satisfaction of program restrictions - collection items purchased	359,944	(359,944)	-
Change in net assets from nonoperating activities	4,224,824	113,677,966	117,902,790
Change in net assets	6,523,173	114,335,273	120,858,446
Net assets at beginning of year	163,208,334	469,780,066	632,988,400
Net assets at end of year	$ 169,731,507	$ 584,115,339	$ 753,846,846

See accompanying notes to the financial statements.

Peabody Essex Museum, Inc.
Statement of Functional Expenses
Year Ended June 30, 2021

	Exhibitions and Publications	Curatorial and Collections	Educational Programs	Enterprises	Marketing and Membership	Facilities and Security	Program Services Total	Development	Administrative	Total
Salaries and benefits	$ 1,834,127	$ 2,926,278	$ 931,909	$ 545,152	$ 1,699,760	$ 3,153,899	$ 11,091,125	$ 1,930,696	$ 2,851,420	$ 15,873,241
Cost of goods sold	-	-	-	344,914	-	-	344,914	-	-	344,914
Freight and courier	78,144	53,215	-	15,048	-	-	146,407	-	-	146,407
Exhibition construction materials	257,755	-	-	-	-	-	257,755	-	-	257,755
Outside services	980,335	323,397	76,215	71,117	224,072	162,542	1,837,678	51,768	1,450,694	3,340,140
Equipment maintenance and repair	-	6,384	-	-	14,516	425,758	446,658	9,460	131,207	587,325
Space and occupancy	293	-	-	-	-	2,210,982	2,211,275	-	-	2,211,275
Archival maintenance and repair	-	479,616	-	-	-	-	479,616	-	-	479,616
Office expenses	172,600	123,097	22,990	29,236	218,896	102,061	668,880	50,734	312,090	1,031,704
Advertising	328,077	-	100	8,228	172,118	-	508,523	3,034	-	511,557
Travel and professional development	7,294	8,931	2,515	10	316	10,204	29,270	(264)	11,534	40,540
Hospitality	24,183	9,052	3,827	506	209	297	38,074	27,900	5,448	71,422
Other expenses	1,695	163,843	11,326	26,891	55,906	855	260,516	9,356	470,307	740,179
Subtotal	3,684,503	4,093,813	1,048,882	1,041,102	2,385,793	6,066,598	18,320,691	2,082,684	5,232,700	25,636,075
Allocation of facilities and security	2,000,572	2,972,023	200,616	133,687	49,075	(6,066,598)	(710,625)	95,578	615,047	-
Total operating expenses	5,685,075	7,065,836	1,249,498	1,174,789	2,434,868	-	17,610,066	2,178,262	5,847,747	25,636,075
Interest expense	329,702	2,106,154	82,425	-	-	-	2,518,281	-	-	2,518,281
Depreciation	2,907,774	4,319,748	291,589	194,311	71,329	-	7,784,751	138,920	952,571	8,876,242
Total functional expenses	$ 8,922,551	$ 13,491,738	$ 1,623,512	$ 1,369,100	$ 2,506,197	$ -	$ 27,913,098	$ 2,317,182	$ 6,800,318	$ 37,030,598

See accompanying notes to the financial statements

Peabody Essex Museum, Inc.
Statement of Cash Flows
Year Ended June 30, 2021

Cash flows from operating activities:	
Change in net assets	$ 120,858,446
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	8,906,364
Contributions restricted for long-term investments and capital additions	(1,386,316)
Net unrealized and realized gain on long-term investments	(144,438,617)
(Increase) decrease in assets:	
Pledges receivable	26,100
Grants, ERC and other receivables	(2,062,820)
Inventories	(18,133)
Prepaid expenses and other assets	(43,627)
Increase in liabilities:	
Accounts payable, operating and expansion project	232,409
Accrued expenses, operating	60,146
Other liabilities	52,394
Net cash used in operating activities	(17,813,654)
Cash flows from investing activities:	
Additions to land, building, equipment and construction in progress	(1,542,514)
Purchases of investments	(246,507,783)
Proceeds from mortgage receivable	99,857
Proceeds from sales of investments	267,909,135
Additions to/distributions from split-interest agreements	2,572,399
Change in value of split-interest agreements and funds held by others	(2,266,809)
Net cash provided by investing activities	20,264,285
Cash flows from financing activities:	
Payments on notes payable	(1,607,341)
Contributions restricted for long-term investments and capital additions	1,386,316
Net cash used in financing activities	(221,025)
Net increase in cash and cash equivalents	2,229,606
Cash and cash equivalents, including funds restricted for expansion, beginning of year	14,753,507
Cash and cash equivalents, including funds restricted for expansion, end of year	$ 16,983,113
Supplemental disclosure of activities:	
Cash paid for interest	$ 2,504,949
Supplemental disclosure of noncash activities:	
Fixed asset acquisitions remaining in accounts payable and accrued expenses	$ 597,349

See accompanying notes to the financial statements

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Over the last 20 years, the Peabody Essex Museum ("PEM" or "the Museum") has distinguished itself as one of the fastest-growing art museums in North America. At its heart is a mission to enrich and transform people's lives by broadening their perspective, attitudes and knowledge of themselves and the wider world. PEM celebrates outstanding artistic and cultural creativity through exhibitions, programming, and special events that emphasize cross-cultural connections, integrate past and present, and underscore the vital importance of creative expression. Founded in 1799, the Museum's collection is among the finest of its kind boasting superlative works from around the globe and across time -- including American art and architecture, American decorative art, Asian art and architecture, Asian export art, photography, maritime art and history, contemporary art, fashion and design, Native American, Oceanic and African art. PEM's campus provides a varied and unique visitor experience with hands-on creativity zones, interactive opportunities and performance spaces, the Phillips Library, which holds one of the nation's most important museum-based collections of rare books and manuscripts, and historic properties, including Yin Yu Tang, a 200-year-old Chinese house that is the only example of Chinese domestic architecture on display in the United States.

In 2018, the Museum opened a 120,000-square-foot Collection Center in Rowley, Massachusetts to unify, preserve and protect over a million works of art and culture, several hundred thousand books, and one linear mile of archival material, which together represent more than 12,000 years of global artistic and cultural creativity. The Collection Center is home to the Phillips Library Reading Room where the public can access rare documents and research material by walk-in or appointment. In 2019, the Museum opened a new 40,000-square-foot wing designed by Ennead Architects, New York. The expansion and adjacent facilities renovation provide new gallery space for collection installations, an entry for school and group tours, improved gallery linkages and visitor navigation, and a 5,000-square-foot garden designed by Nelson Byrd Woltz Landscape Architects.

The Museum is recognized by the Internal Revenue Service as an organization described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from federal and state income taxes on related income. Given the limited taxable activities of the Museum, management has concluded that disclosures relative to tax provisions are not necessary.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Classification and Reporting of Net Assets

The financial statements of the Museum have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America which requires that information regarding its financial position and activities are reported based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions represent resources available for general use and not subject to donor restrictions. Net assets without donor restrictions include net investment in fixed assets. The Board of Trustees has designated amounts from net assets without donor restrictions to function as endowment and for strategic purposes. Investment returns are reported as increases or decreases in net assets without donor restrictions.

Net Assets With Donor Restrictions represent resources subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. This category also includes accumulated net appreciation which has not yet been appropriated for expenditure by the Board. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Generally, the donors of these assets permit the Museum to use all or part of the income earned and capital appreciation on related investments to support the Museum or specific purposes as stipulated by the donor.

Cash and Cash Equivalents

All highly liquid debt instruments with a maturity of three months or less when purchased are classified as cash equivalents. Cash and cash equivalents are reported at cost plus earned interest. Cash and cash equivalents held by investment managers are considered part of investments. The Museum monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Funds Restricted for Expansion Project

Funds restricted for expansion project are reported at fair value as per the fair value policies later in this section. These funds include donor-restricted receipts held separately in money market accounts and in US Treasuries for expansion project expenditures.

Grants and Other Receivables

Grants receivable consist of receivables for amounts expended under government grants. All amounts are expected to be received within one year. Other receivables arising from Museum activities are reported at the amount management expects to collect on balances outstanding at year end. Reserves associated with such grants and other receivables have been minimal.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Pledges Receivable

Pledges expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected over more than one year are recorded at the present value of estimated future cash flows utilizing a risk-adjusted discount rate when the pledge is made. The initial recording is considered fair value using a Level 2 measurement as per the fair value polices later in this section. Reserves are adjusted as needed.

Inventories

Inventories, principally retail merchandise, are stated at the lower of cost or market, with cost calculated using the first-in, first-out ("FIFO") method and market based upon estimated net realizable value. Management periodically analyzes the inventory and provides a reserve for slow-moving and obsolete items.

Funds Held by Others

Funds held by others are reported at fair value as per the fair value policies later in this section. These assets consist of the Museum's share of assets held in trust in perpetuity for the benefit of the Museum. The change in fair value is reported in nonoperating activity.

Assets and Residual Interests under Split-Interest Agreements

Assets held by the Museum under split-interest agreements are reported at fair value as per the fair value polices later in this section. These instruments most commonly are received under gift annuity arrangements with the Museum receiving an amount up front while agreeing to pay a life annuity to the beneficiary. Such amounts are invested within the Museum's pooled investments though the Museum has some residual interests in assets held by third-party trustees which will be received upon the maturity of the arrangement. These are initially recorded at fair value using Level 3 measures and are updated annually based on current actuarial estimates using the initial discount rate used in valuing the instrument.

Management reports its residual interest as if at fair value as it has determined such to not be materially different from actual fair value.

Investments

Investments are reported at fair value as per the fair value policies outlined in these accounting policies.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Museum reports required types of financial instruments in accordance with the fair value standards of accounting with certain of those items being measured using these standards on a recurring basis (such as investments) with other items being measured on a non-recurring basis (such as pledges and split-interest agreement obligations). Fair value is defined as 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. These standards require an entity to maximize the use of observable inputs (such as quoted market prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The fair value standards also provide for a practical expedient of fair value allowing for the use of net asset value per share ("NAV") when certain requirements are met. Items reported at fair value on a recurring basis include investments, funds held by others and assets under split-interest agreements.

The fair value standards require that each item carried at fair value be disclosed in accordance with a categorization system based on the determination of fair values as follows:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities that the Museum has the ability to access at measurement date.

Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3 – Inputs are derived from valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market, exchange, dealer, or broker-traded transactions. In addition, Level 3 valuations incorporate assumptions and projections that are not observable in the market and significant professional judgment is required in determining the fair value assigned to such assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level of input that is significant to the fair value measurement in its entirety.

It is possible that redemption rights may be restricted or eliminated by investment managers in the future in accordance with the underlying fund agreements. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observable inputs and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost when such amounts are above management's threshold for capitalization and have a useful life of one year or more. Buildings, improvements, historic house renovations and equipment are stated at cost less accumulated depreciation computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	30 to 50 years
Capital improvements	5 to 30 years
Leasehold improvements	3 to 5 years
Furniture, fixtures and equipment	3 to 10 years
Historic house renovations	5 to 30 years

Betterments which materially add to the value of the related assets or materially extend the useful life of the assets are capitalized. Equipment and furnishings of relatively small dollar value are expensed as incurred. When equipment is retired, its cost and the related accumulated depreciation are eliminated from the respective accounts. Gains or losses arising from dispositions are charged to net assets without donor restrictions.

Historic house properties acquired by the Museum are not depreciated and are reflected in net assets with donor restrictions given the requirement to maintain these properties in perpetuity. These properties and their initial restoration cost were recorded at fair value when originally donated and initially restored. Archival repairs to historic house properties, regardless of amount, are expensed as incurred and are offset by releases of restricted funds accumulated to assist in the funding of such repairs.

Notes Payable

Notes payable include the amounts due to a lender net of bond issuance cost. Bond issuance costs are amortized using a weighted average method over the life of the notes.

Obligations under Split-Interest Agreements

Obligations under split-interest agreements are initially recorded at fair value using actuarial methods and discount rates, which are Level 3 measurements as per the fair value policies earlier in this section. During the term of these agreements, changes in the obligations are recognized in the statement of activities based on accretion of the discount and changes in life expectancy and other actuarial assumptions.

Revenue Recognition

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. The Museum has both earned revenues and contributed support which follow accounting requirements associated with the nature of the revenue item.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Earned Revenue

Earned revenue measurement is driven via a principles-based process that requires the entities: 1) identify the contract with the customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations; and 5) recognize revenue when (or as) performance obligations are satisfied. A summary of each earned revenue stream is as follows:

Admissions are reported as revenue on the date of admission which is when the performance obligation is satisfied. Advance sales and group sales are reported as deferred support and are recognized as admissions revenue when the performance obligation is satisfied, which is the date of admission.

Enterprise and other revenues are generally recorded upon sale or completion of the service depending upon the activity. Sales consist primarily of gift shop, food and beverage commissions and venue rental sales. Food sales and event catering is managed by a 3rd party and the Museum receives a commission payment based on the month's adjusted gross revenue from the catered events. Deposits and prepayments for space rentals on events and group sales are reflected as deferred support until the performance obligation is satisfied, which is the date of the event. Revenue from traveling exhibits is recorded based on the contract terms.

Earned revenue is under arrangements that are one year or less in length.

Investment returns are reported as revenue based on the fair value of such investments at year end. Investment returns are allocated to the pool in which the invested funds relate. Investment returns allocated to net assets with donor restrictions remain in such category until appropriated by the board under the board approved spending policy. Investment returns are reported as follows:

- as increases in net assets with donor restrictions if the terms of the gift require that they be added to the principal of an endowment fund or if the terms of the gift or state law impose restrictions on the current use of the income or net gains; and
- as increases in net assets without donor restrictions in all other cases.

Contributed Support

Contributions and grants, including unconditional promises to give, are recognized as revenues as either without or with donor restrictions in the period verifiably committed by the donor. Contributions and grants of assets other than cash are recorded at their estimated fair value and per the fair value policies described elsewhere in this section. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows using a risk adjusted discount rate depending on the time period involved. Amortization of the discount is included in contribution and grant revenue in accordance with the

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Contributed Support (Continued)

donor-imposed restrictions, if any, on the contributions or grants. Contributions or grants with donor-imposed restrictions that can be met through the passage of time or upon the incurring of expenses consistent with the purposes are recorded as net assets with donor restrictions and reclassified to net assets without donor restrictions when such time or purpose restrictions have been satisfied.

Contributions of land, buildings and equipment are recorded as without donor restrictions unless the donor explicitly states how such assets should be used. Contributions of cash or other assets that must be used to acquire long lived assets are reported as net assets with donor restrictions. The Museum reports expirations of donor restrictions when the donated or acquired long lived asset is placed into service.

Contributions of services are recognized when provided by individuals or organizations whose skills would be purchased if not provided by donation. In addition, a substantial number of unpaid volunteers have made significant contributions of their time to develop and maintain the Museum's programs. The value of this contributed time is not reflected in these statements.

Conditional contributions and grants are recorded as revenue when such amounts become unconditional which generally involves the meeting of a barrier to entitlement. This can include items like meeting a matching provision, incurring specified allowable expenses in accordance with a framework of allowable costs or other barriers. During the year, contributions received pending designation by the donor are considered with donor restrictions until known at which time such are reclassified, if required. Classification is settled by year-end.

Memberships are recorded as revenue upon receipt given that management has determined that such are primarily donative. Memberships are recorded at established rates.

Endowment Investment and Spending

State law allows the Board of Trustees to appropriate a percentage of net appreciation as is prudent considering the Museum's long- and short-term needs, present and anticipated financial requirements and expected total return on its investments, price level trends and general economic conditions. The Museum's endowment spending policy is computed based on the average market value for the previous 12 quarters, through March 31 of the prior year. Board designated funds that do not function as endowment are excluded from the calculation. The percentage applied to the rolling average market value was 5% for the year ended June 30, 2021. Amounts calculated on endowment funds with purpose restrictions are appropriated but not released until such time as the purpose restriction is met.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. In accordance with accounting standards, deficiencies of this nature that are reported in net assets with donor restrictions are $0 as of June 30, 2021.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Endowment Investment and Spending (Continued)

The Museum's investment portfolio is managed to provide for the long-term support of the Museum. Accordingly, these funds are managed with disciplined longer-term investment objectives and strategies designed to meet cash flow and spending requirements. Management of the assets is designed to attain the maximum total return consistent with acceptable and agreed upon levels of risk. The target is to achieve an average annual real total return (net of investment management fees and inflation) of at least 5% when measured over rolling periods of not less than five years.

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets an asset allocation strategy wherein assets are diversified among several asset classes. The pursuit of maximizing total return is tempered by the need to minimize the volatility of returns and preserve capital. As such, the Museum seeks broad diversification among assets having different characteristics with the intent to endure lower relative performance in strong markets in exchange for greater downside protection in weak markets.

Operating Activities

Operating activities represent revenues by source and expenses by major function. Nonoperating activities include investment returns net of amounts appropriated for operations, changes in the value of split-interest agreements and funds held by others, depreciation, collection items purchased as well as certain other items of income and expense.

Collections and Works of Art

The Museum's collections are made up of works of art, as well as artifacts of historical, cultural and scientific significance, that are held for curatorial, educational and research purposes. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections.

The collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. Collection items purchased are funded by purpose-restricted gifts or from net appreciation on acquisition endowments.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Allocation of Functional Expenses

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

A portion of Administration is allocated to Development to reflect senior management responsibilities. Depreciation of buildings and equipment and facilities and security have been allocated to functional classifications based on square footage occupied. Interest expense is allocated based on usage of the space funded by the related debt.

Advertising Costs

Advertising costs are charged to operations when incurred and are disclosed on the statement of functional expenses.

Uncertain Tax Positions

The Museum accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense.

The Museum has identified its status as a publicly supported tax exempt entity and its classification of revenues as related or unrelated as its only significant positions and has determined that such positions do not result in an uncertainty requiring recognition. The Museum’s federal and state income tax returns are generally open for examination for the three years after the date of filing of the related return.

Subsequent Events

The Museum performed an evaluation of subsequent events through December 10, 2021, the date the financial statements were issued.

Note 2 - Liquidity and Availability of Resources

The Museum regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Museum has various sources of liquidity at its disposal, including cash and cash equivalents, receivables, and certain investments.

In addition to the financial assets available to meet general expenditures over the next 12 months, the Museum seeks to operate with a balanced budget and anticipates earned revenues and annual support contributions sufficient to cover general expenditures not provided by endowment appropriation or other donor-restricted sources. Also, if needed, amounts reported as board designated could be made available by Board action.

The Museum's financial assets available within one year of the statement of financial position date for budgeted general and programmatic operating expenditures are as follows at June 30, 2021:

Cash and cash equivalents	$	9,533,105
Grants and other receivables		208,732
Endowment spend rate approved for next year's operations		21,171,856
Budgeted releases of funds		2,680,036
Total	**$**	**33,593,729**

The Museum is currently engaged in an expansion project. Financial assets available within one year of the statement of financial position date for the expansion project expenditures is $7,450,008.

Note 3 - Pledges Receivable, Net

Pledges receivable are expected to be collected as follows at June 30, 2021:

Within one year	$	430,148
One to five years		1,227,250
More than five years		2,985,700
Total pledges receivable		4,643,098
Less: Present value discount		(1,025,468)
Less: Allowance for uncollectible pledges		(12,250)
Less: Current portion		(430,148)
Pledges receivable, net - noncurrent	**$**	**3,175,232**

Note 4 - Investments and Fair Values of Financial Instruments

The valuation of the Museum's financial instruments using the fair value hierarchy consisted of the following at June 30, 2021:

	Total Fair Value	*Investments Valued at Net Asset Value*	*Fair Value Level 1*	*Fair Value Level 3*
Cash equivalents	$ 18,060,375	$ -	$ 18,060,375	$ -
Domestic equities and funds	106,356,585	70,733,222	35,623,363	-
International equities and funds	74,010,856	74,010,856	-	-
Fixed income and funds	100,746,008	72,509,515	28,236,493	-
Hedge funds	129,986,147	129,986,147	-	-
Real estate limited partnerships	12,842,431	12,842,431	-	-
Private equity	160,451,661	156,210,683	-	4,240,978
Commodities	8,480,256	-	8,480,256	-
Total investments	$ 610,934,319	$ 516,292,854	$ 90,400,487	$ 4,240,978
Funds held by others	$ 5,044,178	$ -	$ -	$ 5,044,178
Assets and residual interests under split-interest agreements	$ 2,317,641	$ -	$ 1,533,629	$ 784,012
Funds restricted for expansion project	$ 7,450,008	$ -	$ 7,450,008	$ -

Many of the Museum's investment funds contain clauses that under certain unusual circumstances trustees and fund managers may limit distributions from the related fund. The Museum has not experienced such limitations over distributions from its funds.

Unfunded commitments under various investment vehicles amounted to approximately $74 million at June 30, 2021.

Note 4 - Investments and Fair Values of Financial Instruments (Continued)

The Board has approved appropriations from its investment funds of $21,171,856 for fiscal year 2022 which management expects to fund from liquidity normally maintained within its portfolio.

Funds held by others consist primarily of marketable securities held by investment custodians and managed by trustees. Assets and residual interests of split-interest agreements consist of charitable remainder trusts invested in marketable securities and mutual funds by outside trustees, as well as assets associated with charitable gift annuities.

Investments may be redeemed on the following basis at June 30, 2021:

Under 90 days	$ 263,112,562
90 days to 1 year	71,648,426
Over 1 year	46,655,437
Illiquid	139,117,407
Total	**$ 520,533,832**

The changes in instruments measured at fair value for which the Museum has used Level 3 inputs to determine fair value are as follows at June 30, 2021:

	Funds Held by Others	***Residual Interests***	***Private Equity***
Balance as of July 1, 2020	$ 4,931,261	$ 608,891	$ 2,391,427
Net unrealized gains	-	-	791,456
Net investment expenses	-	-	(96,009)
Purchases and additions	-	-	1,193,287
Sales	-	-	(39,183)
Change in value	112,917	175,121	-
Balance as of June 30, 2021	**$ 5,044,178**	**$ 784,012**	**$ 4,240,978**

Note 5 - Land, Buildings and Equipment

Land, buildings and equipment are carried at cost and consist of the following at June 30, 2021:

Land	$	4,581,766
Buildings		182,350,796
Capital improvements		80,605,653
Leasehold improvements		228,638
Furniture, fixtures and equipment		18,958,792
Historic houses		999,528
Total		287,725,173
Accumulated depreciation		(102,223,562)
Total		185,501,611
Construction in progress		7,302,047
Land, buildings and equipment, net	**$**	**192,803,658**

Depreciation expense was $8,876,242 for the year ended June 30, 2021.

Note 6 - Employee Benefit Plans

Defined Contribution Plan

The Museum has a qualified defined contribution plan covering all eligible employees. Employees become eligible to participate after completing one year of service and attaining the age of 21. The Museum contributes 6% (and in some cases higher amounts) of each eligible employee's annual salary. Expenses under this plan were $639,913 for the year ended June 30, 2021.

Deferred Compensation Plan

The Museum has a nonqualified 457(b) and 457(f) Plan for certain key employees. Elective deferrals by the eligible employee may be made to the plans along with elective amounts as determined on an annual basis by the Board, up to the maximum permitted by law. Total contributions to the plans were $0 for the year ended June 30, 2021. Distributions are made upon termination of employment. Distributions made for the year ended June 30, 2021 totaled $44,396.

Note 7 - Notes Payable

Notes payable consisted of the following for the year ended June 30, 2021:

Massachusetts Development Finance Agency Revenue Note, Peabody Essex Museum Issue, Series 2016, interest payable monthly at a fixed rate of 3.25%, principal due in quarterly installments of $550,000 starting May 2021 through February 2046. This note is privately placed with a bank.	$ 54,450,000
Massachusetts Development Finance Agency Revenue Note, Peabody Essex Museum Issue, Series 2012, interest payable monthly at a fixed rate of 2.75% with a one time adjustment in 2032 at a rate equal to the then 10 year U.S. Treasury securities rate plus 1.25%, principal due in quarterly installments of $243,000 starting 2013 through 2042. This note is privately placed with a bank.	20,898,000
Fixed rate note with a bank, interest payable monthly at a fixed rate of 4.35% with a one time adjustment in 2032 at a rate equal to the then 10 year U.S. Treasury securities rate plus 2.5%, principal due in quarterly installments of $21,335 starting 2013 through 2042.	1,834,839
Total outstanding notes	77,182,839
Less current portion of notes payable	3,257,341
Less bond issuance costs (net of amortization)	353,569
Notes payable, net of current portion	**$ 73,571,929**

Note 7 - Notes Payable (Continued)

The Museum has pledged its gross receipts, accounts, equipment, inventory and general intangibles of the Museum, expressly excluding the Museum's collections. Under the terms of the note agreements, the Museum is subject to certain restrictive covenants involving additional indebtedness and the maintenance of minimum levels of liquidity of net assets without donor restrictions, as defined, and investments.

Principal payments on the notes payable are due as follows:

2022	$ 3,257,341
2023	3,257,341
2024	3,257,341
2025	3,257,341
2026	3,257,341
Thereafter	60,896,134
	$ 77,182,839

Interest expense was $2,518,281 for the year ended June 30, 2021.

Note 8 - Net Assets and Endowment Matters

Net Assets Without Donor Restrictions

Net assets without donor restrictions consist of the following at June 30, 2021:

Fixed assets - The value of buildings and equipment, net of depreciation, used in the Museum's operations. This amount is offset by outstanding liabilities related to the assets, such as notes payable.

Board-designated - Funds set aside by the Board of Trustees for strategic purposes and to function as endowment to support operations. These amounts may only be used with the approval of the Board of Trustees.

Operating - Discretionary funds available for carrying on the operating activities of the Museum.

Net investment in land, buildings and equipment	$ 114,903,747
Board-designated:	
Functioning as endowment	13,693,394
Funds for strategic purposes	34,282,971
Operating	6,851,395
	$ 169,731,507

Note 8 - Net Assets and Endowment Matters (Continued)

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30, 2021:

Accumulated unspent gains on endowment funds - In accordance with standards for accounting for investments and endowment funds held by not-for-profit organizations and with Massachusetts state law, these amounts represent unappropriated net appreciation on investments for endowments held in perpetuity.

Purpose restricted - Amounts received with donor restrictions which have not yet been expended for their designated purposes.

Pledges receivable - Unconditional promises to give, either time restricted, purpose-restricted, or restricted in perpetuity, to be received in future periods.

Funds held by others - Assets held in trust which are restricted in use by the donor or in perpetuity for which the Museum is the beneficiary of annual distributions of income.

Split-interest agreements - Assets under split-interest agreements for which the remainder interest, either unrestricted, purpose-restricted or restricted in perpetuity, will be received in future periods.

Endowment principal - Amounts restricted by donors against any expenditure of principal. Substantially all the income earned on principal may be used for general or donor-restricted purposes and is recorded in net assets without donor restrictions or with donor restrictions, as appropriate.

Historic houses - Historic house properties acquired by the Museum and the costs of initial restoration are reflected as net assets with donor restrictions that are perpetual in nature given the requirement to maintain these properties in perpetuity.

Note 8 - Net Assets and Endowment Matters (Continued)

Net Assets With Donor Restrictions (Continued)

Composition of net assets with donor restrictions as of June 30, 2021 is as follows:

Spendable funds with time and purpose restrictions:		
Restricted for programs and collections	$	11,259,317
Restricted for strategic purposes, including expansion project		15,752,717
Pledges receivable on amounts with time and purpose restrictions		1,553,409
Funds held by others with purpose restrictions		678,719
Split-interest agreements with purpose restrictions		877,392
Endowment funds (*):		
Unrealized accumulated unspent gains on endowment funds:		
In general support of the Museum		195,982,343
With purpose restrictions		26,382,217
Functioning as endowment for program support		6,123,040
Endowment funds restricted in perpetuity:		
In general support of the Museum		295,539,328
With purpose restrictions		21,500,142
Funds held by others		4,365,459
Split-interest agreements		1,049,757
Pledges receivable for amounts to be restricted in perpetuity		2,051,971
Historic houses held in perpetuity		999,528
Total net assets with donor restrictions	**$**	**584,115,339**

(*) Total endowment funds amounted to $550,942,286 as of June 30, 2021. Endowment in general support of the Museum includes $75,000,000 of funds which are directed to support activities in the Museum's core collection areas. Other restrictions specify how funds may be invested. The Museum is in compliance with all donor restrictions and will maintain such compliance for the period of time required in the gift agreements; accordingly, such funds have been included in the net assets of the Museum.

Note 8 - Net Assets and Endowment Matters (Continued)

Net Assets With Donor Restrictions (Continued)

Net assets with donor restrictions were released upon satisfaction of restrictions for the following purposes for the year ended June 30, 2021:

Satisfaction of restrictions:		
Programs and collections purposes	$	3,257,750
Strategic purposes, including expansion project		2,095,433
	$	**5,353,183**

Releases of net assets with donor restrictions are reported on the statement of activities as follows for the year ended June 30, 2021:

Operating support and revenue:		
Satisfaction of program restrictions	$	2,019,739
Nonoperating activities:		
Plant related satisfaction of program restrictions		2,973,500
Satisfaction of program restrictions - collection items		359,944
	$	**5,353,183**

Note 8 - Net Assets and Endowment Matters (Continued)

The following represents required disclosure relative to the composition and activities of endowment and funds functioning as endowment (including funds held by others) for the year ended June 30, 2021:

	Net Assets Without Donor Restrictions	*Net Assets With Donor Restrictions*	*Total*
Endowment assets and those functioning as endowment assets, beginning of year	$ 10,933,391	$ 437,814,754	$ 448,748,145
Gifts and additions (excluding non-cash pledge activity)	2,500	1,909,778	1,912,278
Investment returns:			
Interest and dividends, net of investment expenses	59,455	2,342,173	2,401,628
Net realized and unrealized gains	3,530,034	130,316,828	133,846,862
Total investment returns	3,589,489	132,659,001	136,248,490
Expenditures:			
Amounts appropriated	(831,986)	(21,441,247)	(22,273,233)
Change in investments	2,760,003	113,127,532	115,887,535
Endowment assets and those functioning as endowment assets, end of year	**$ 13,693,394**	**$ 550,942,286**	**$ 564,635,680**

Note 9 - Commitments and Contingencies

The Museum is involved in legal actions in the ordinary course of business. In the opinion of management, there are no legal proceedings pending against or involving the Museum whose outcome is likely to have a material adverse effect upon the financial statements of the Museum.

The Museum had construction contract commitments totaling $532,253 at June 30, 2021.

Note 10 - Related Party Transactions

The Museum has a mortgage note receivable from an officer of the Museum as follows at June 30, 2021:

Mortgage note	**$ 300,143**

In 2021, two mortgage notes were executed with an officer of the Museum in the amount of $300,000, with interest accrued at the applicable federal mid-term interest rate.

Note 11 - Federal Support Associated with COVID-19

Paycheck Protection Program

On February 8, 2021, the Museum applied for and received a forgivable loan of $2,000,000 under the Paycheck Protection Program as provided under the Federal Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). Under the terms of the agreement, the balance is forgivable to the extent the proceeds are used for certain qualified costs for the eight week period of February 16, 2021 through April 13, 2021 and that certain employment levels are maintained. Through June 30, 2021, the Museum has used all of the proceeds for payroll, therefore the entire loan amount has been reported as revenue rather than as a loan payable. The Museum received formal forgiveness for this grant on September 20, 2021.

Employee Retention Credits

The Museum determined it was eligible for the employee retention credit (ERC) program in the quarters ended March 31, 2021 and June 30, 2021. The Museum recorded ERC revenue associated with this program in the amount of $1,975,400 for the year ended June 30, 2021. This amount has been applied for and has not yet been received.

Forward Impact

The Museum expects that the COVID public health environment will continue to have impacts on revenues and costs that are difficult to predict. However the Museum has demonstrated a level of responsible adaptation and resiliency and expects to have the resources to continue to do so and provide a safe environment to enjoy works of art.