



Financial Statements
Peabody Essex Museum, Inc.
June 30, 2023 and 2022



PEABODY ESSEX MUSEUM, INC.

Financial Statements

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of Peabody Essex Museum, Inc. (the "Museum"), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Museum as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for a reasonable period of time.

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

Mayer Hoffman McCann P.C.

Boston, Massachusetts
December 8, 2023

Peabody Essex Museum, Inc.
Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,647,798	\$ 4,093,059
Restricted cash and cash equivalents	14,214,026	8,474,831
Grants, ERC and other receivables	2,339,831	3,002,631
Pledges receivable	1,084,298	824,400
Inventories	608,205	593,992
Prepaid expenses	144,163	221,900
Total current assets	22,038,321	17,210,813
Noncurrent assets:		
Pledges receivable, net	4,387,578	4,479,081
Investments	586,825,535	566,855,133
Funds held by others	4,525,239	4,321,833
Assets and residual interests under split-interest agreements	1,981,394	2,021,328
Note receivable - related party	304,998	305,816
Land, buildings and equipment	179,289,150	186,285,710
Total assets	<u>\$ 799,352,215</u>	<u>\$ 781,479,714</u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 1,289,757	\$ 1,330,609
Accrued expenses	1,488,721	1,527,037
Other liabilities	283,169	234,164
Notes payable	3,257,341	3,257,341
Total current liabilities	6,318,988	6,349,151
Noncurrent liabilities:		
Notes payable	67,114,335	70,343,763
Other liabilities	41,245	89,669
Obligation under split-interest agreements	346,494	367,819
Total liabilities	<u>73,821,062</u>	<u>77,150,402</u>
Net assets:		
Without donor restrictions	165,107,814	166,198,872
With donor restrictions	560,423,339	538,130,440
Total net assets	<u>725,531,153</u>	<u>704,329,312</u>
Total liabilities and net assets	<u>\$ 799,352,215</u>	<u>\$ 781,479,714</u>

Peabody Essex Museum, Inc.
Statement of Activities
Year Ended June 30, 2023
(with comparative totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2023	2022
Operating support and revenue:				
Contributions	\$ 2,116,444	\$ 12,199,657	\$ 14,316,101	\$ 8,202,192
Grants	65,077	-	65,077	94,167
Spending rate transfer appropriated for operations	22,855,712	-	22,855,712	20,989,721
Enterprise and other revenues	2,442,912	13,904	2,456,816	1,817,194
Admissions	1,239,428	-	1,239,428	1,545,986
Memberships	765,969	-	765,969	838,988
Satisfaction of program restrictions	3,079,360	(3,079,360)	-	-
ERC applied for	-	-	-	1,073,444
Total operating support and revenue	32,564,902	9,134,201	41,699,103	34,561,692
Expenses:				
Program services:				
Exhibitions and publications	6,786,171	-	6,786,171	7,094,989
Curatorial and collections	8,041,442	-	8,041,442	7,593,815
Educational programs	1,702,963	-	1,702,963	1,465,406
Enterprises	1,469,376	-	1,469,376	1,416,144
Marketing and membership	2,906,454	-	2,906,454	2,497,646
Total program services	20,906,406	-	20,906,406	20,068,000
Supporting services:				
Development	3,042,010	-	3,042,010	3,311,161
Administrative	5,634,096	-	5,634,096	4,886,080
Total supporting services	8,676,106	-	8,676,106	8,197,241
Total program and supporting services	29,582,512	-	29,582,512	28,265,241
Changes in net assets from operations before interest expense	2,982,390	9,134,201	12,116,591	6,296,451
Interest expense	(2,325,777)	-	(2,325,777)	(2,434,350)
Changes in net assets from operations after interest expense	656,613	9,134,201	9,790,814	3,862,101
Nonoperating activities:				
Investment return net of amounts appropriated for operations	2,785,568	12,348,450	15,134,018	(43,994,617)
Change in value of split-interest agreements and funds held by others	-	250,853	250,853	(976,959)
Nonoperating grants and contributions	75,000	5,288,025	5,363,025	746,549
Depreciation	(8,848,651)	-	(8,848,651)	(8,895,572)
Gain on disposal of fixed assets	11,344	-	11,344	439,367
Plant related satisfaction of program restrictions	4,583,291	(4,583,291)	-	-
Collection items purchased	(499,562)	-	(499,562)	(698,403)
Satisfaction of program restrictions - collection items purchased	145,339	(145,339)	-	-
Change in net assets from nonoperating activities	(1,747,671)	13,158,698	11,411,027	(53,379,635)
Change in net assets	(1,091,058)	22,292,899	21,201,841	(49,517,534)
Net assets at beginning of year	166,198,872	538,130,440	704,329,312	753,846,846
Net assets at end of year	\$ 165,107,814	\$ 560,423,339	\$ 725,531,153	\$ 704,329,312

See accompanying notes to the financial statements.

Peabody Essex Museum, Inc.
Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenue:			
Contributions	\$ 2,747,028	\$ 5,455,164	\$ 8,202,192
Grants	94,167	-	94,167
Spending rate transfer appropriated for operations	20,989,721	-	20,989,721
Enterprise and other revenues	1,811,621	5,573	1,817,194
Admissions	1,545,986	-	1,545,986
Memberships	838,988	-	838,988
Satisfaction of program restrictions	2,404,561	(2,404,561)	-
ERC applied for	1,073,444	-	1,073,444
Total operating support and revenue	31,505,516	3,056,176	34,561,692
Expenses:			
Program services:			
Exhibitions and publications	7,094,989	-	7,094,989
Curatorial and collections	7,593,815	-	7,593,815
Educational programs	1,465,406	-	1,465,406
Enterprises	1,416,144	-	1,416,144
Marketing and membership	2,497,646	-	2,497,646
Total program services	20,068,000	-	20,068,000
Supporting services:			
Development	3,311,161	-	3,311,161
Administrative	4,886,080	-	4,886,080
Total supporting services	8,197,241	-	8,197,241
Total program and supporting services	28,265,241	-	28,265,241
Changes in net assets from operations before interest expense	3,240,275	3,056,176	6,296,451
Interest expense	(2,434,350)	-	(2,434,350)
Changes in net assets from operations after interest expense	805,925	3,056,176	3,862,101
Nonoperating activities:			
Investment return net of amounts appropriated for operations	(1,820,926)	(42,173,691)	(43,994,617)
Change in value of split-interest agreements and funds held by others	-	(976,959)	(976,959)
Nonoperating grants and contributions	50,000	696,549	746,549
Depreciation	(8,895,572)	-	(8,895,572)
Gain on disposal of fixed assets	439,367	-	439,367
Plant related satisfaction of program restrictions	5,990,039	(5,990,039)	-
Collection items purchased	(698,403)	-	(698,403)
Satisfaction of program restrictions - collection items purchased	596,935	(596,935)	-
Change in net assets from nonoperating activities	(4,338,560)	(49,041,075)	(53,379,635)
Change in net assets	(3,532,635)	(45,984,899)	(49,517,534)
Net assets at beginning of year	169,731,507	584,115,339	753,846,846
Net assets at end of year	\$ 166,198,872	\$ 538,130,440	\$ 704,329,312

See accompanying notes to the financial statements.

Peabody Essex Museum, Inc.
Statement of Functional Expenses
Year Ended June 30, 2023
(with comparative totals for 2022)

	<u>Exhibitions and Publications</u>	<u>Curatorial and Collections</u>	<u>Educational Programs</u>	<u>Enterprises</u>	<u>Marketing and Membership</u>	<u>Facilities and Security</u>	<u>Program Services Total</u>	<u>Development</u>	<u>Administrative</u>	<u>2023 Total</u>	<u>2022 Total</u>
Salaries and benefits	\$ 1,703,739	\$ 3,420,534	\$ 1,108,028	\$ 649,007	\$ 2,003,325	\$ 3,380,507	\$ 12,265,140	\$ 2,096,333	\$ 2,452,505	\$ 16,813,978	\$ 16,063,520
Cost of goods sold	-	-	-	498,338	-	-	498,338	-	-	498,338	508,869
Freight and courier	240,737	50,767	-	19,272	-	-	310,776	-	1,606	312,382	435,731
Exhibition construction materials	597,137	-	-	-	-	-	597,137	-	-	597,137	642,720
Outside services	952,611	412,228	205,886	77,866	361,172	46,352	2,056,115	383,190	1,330,522	3,769,827	3,547,860
Equipment maintenance and repair	25,859	9,500	1,554	-	20,077	646,307	703,297	44,801	181,947	930,045	1,058,203
Space and occupancy	166	-	-	-	-	2,635,190	2,635,356	10,033	-	2,645,389	2,442,210
Archival maintenance and repair	-	278,038	-	-	-	-	278,038	-	-	278,038	248,737
Office expenses	176,386	147,374	46,504	30,300	259,575	121,812	781,951	91,117	345,754	1,218,822	1,080,862
Advertising	499,067	148	6,654	15,901	110,116	-	631,886	2,649	-	634,535	721,009
Travel and professional development	158,152	170,195	57,714	6,204	19,877	9,283	421,425	41,873	58,362	521,660	258,563
Hospitality	143,170	28,948	47,802	610	6,719	2,685	229,934	247,570	43,283	520,787	401,681
Other expenses	32,756	171,647	2,552	21,096	70,243	213	298,507	16,644	526,423	841,574	855,276
Subtotal	4,529,780	4,689,379	1,476,694	1,318,594	2,851,104	6,842,349	21,707,900	2,934,210	4,940,402	29,582,512	28,265,241
Allocation of facilities and security	2,256,391	3,352,063	226,269	150,782	55,350	(6,842,349)	(801,494)	107,800	693,694	-	-
Total operating expenses	6,786,171	8,041,442	1,702,963	1,469,376	2,906,454	-	20,906,406	3,042,010	5,634,096	29,582,512	28,265,241
Interest expense	304,498	1,945,155	76,124	-	-	-	2,325,777	-	-	2,325,777	2,434,350
Depreciation	2,898,674	4,306,232	290,677	193,703	71,106	-	7,760,392	138,485	949,774	8,848,651	8,895,572
Total functional expenses	<u>\$ 9,989,343</u>	<u>\$ 14,292,829</u>	<u>\$ 2,069,764</u>	<u>\$ 1,663,079</u>	<u>\$ 2,977,560</u>	<u>\$ -</u>	<u>\$ 30,992,575</u>	<u>\$ 3,180,495</u>	<u>\$ 6,583,870</u>	<u>\$ 40,756,940</u>	<u>\$ 39,595,163</u>

See accompanying notes to the financial statements.

Peabody Essex Museum, Inc.
Statement of Functional Expenses
Year Ended June 30, 2022

	Exhibitions and Publications	Curatorial and Collections	Educational Programs	Enterprises	Marketing and Membership	Facilities and Security	Program Services Total	Development	Administrative	Total
Salaries and benefits	\$ 1,757,482	\$ 3,192,017	\$ 1,024,542	\$ 601,098	\$ 1,824,050	\$ 3,207,081	\$ 11,606,270	\$ 2,266,818	\$ 2,190,432	\$ 16,063,520
Cost of goods sold	-	-	-	508,869	-	-	508,869	-	-	508,869
Freight and courier	293,091	115,661	-	26,979	-	-	435,731	-	-	435,731
Exhibition construction materials	641,746	974	-	-	-	-	642,720	-	-	642,720
Outside services	1,349,537	298,548	145,257	51,144	139,432	165,687	2,149,605	365,042	1,033,213	3,547,860
Equipment maintenance and repair	11,449	11,932	2,000	-	27,238	728,846	781,465	123,398	153,340	1,058,203
Space and occupancy	136	18,105	-	-	-	2,423,969	2,442,210	-	-	2,442,210
Archival maintenance and repair	-	248,737	-	-	-	-	248,737	-	-	248,737
Office expenses	142,917	150,820	13,973	22,840	205,444	128,406	664,400	115,594	300,868	1,080,862
Advertising	539,115	-	1,434	11,540	165,147	-	717,236	3,773	-	721,009
Travel and professional development	58,876	80,514	42,388	2,017	6,312	3,925	194,032	35,931	28,600	258,563
Hospitality	48,204	25,127	15,278	3,154	9,284	2,765	103,812	272,826	25,043	401,681
Other expenses	55,873	188,195	264	41,719	66,856	249	353,156	22,837	479,283	855,276
Subtotal	4,898,426	4,330,630	1,245,136	1,269,360	2,443,763	6,660,928	20,848,243	3,206,219	4,210,779	28,265,241
Allocation of facilities and security	2,196,563	3,263,185	220,270	146,784	53,883	(6,660,928)	(780,243)	104,942	675,301	-
Total operating expenses	7,094,989	7,593,815	1,465,406	1,416,144	2,497,646	-	20,068,000	3,311,161	4,886,080	28,265,241
Interest expense	318,713	2,035,959	79,678	-	-	-	2,434,350	-	-	2,434,350
Depreciation	2,914,148	4,329,218	292,228	194,737	71,486	-	7,801,817	139,224	954,531	8,895,572
Total functional expenses	<u>\$ 10,327,850</u>	<u>\$ 13,958,992</u>	<u>\$ 1,837,312</u>	<u>\$ 1,610,881</u>	<u>\$ 2,569,132</u>	<u>\$ -</u>	<u>\$ 30,304,167</u>	<u>\$ 3,450,385</u>	<u>\$ 5,840,611</u>	<u>\$ 39,595,163</u>

See accompanying notes to the financial statements.

Peabody Essex Museum, Inc.
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 21,201,841	\$ (49,517,534)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	8,895,572	8,924,748
Gain on disposal of fixed assets	(11,344)	(439,367)
Contributions restricted for long-term investments and capital additions	(13,854,421)	(1,896,998)
Net unrealized and realized (gains) losses on long-term investments	(36,463,767)	18,857,494
(Increase) decrease in assets:		
Pledges receivable	(168,394)	(1,698,101)
Grants, ERC, other receivables and notes receivable	663,618	(824,172)
Inventories	(14,213)	(56,397)
Prepaid expenses	77,738	(53,890)
Increase (decrease) in liabilities:		
Accounts payable, operating and expansion project	(163,689)	329,231
Accrued expenses, operating	(38,317)	(432,642)
Other liabilities	582	33,603
Net cash used in operating activities	(19,874,794)	(26,774,025)
Cash flows from investing activities:		
Additions to land, building, equipment and construction in progress	(1,736,921)	(3,297,959)
Purchases of investments	(54,576,780)	(55,007,999)
Proceeds from sales of investments	71,136,202	80,248,713
Proceeds from sales of fixed assets	-	799,431
Change in value of split-interest agreements and funds held by others	(250,853)	976,959
Net cash provided by investing activities	14,571,648	23,719,145
Cash flows from financing activities:		
Payments on notes payable	(3,257,341)	(3,257,341)
Contributions restricted for long-term investments and capital additions	13,854,421	1,896,998
Net cash provided by (used in) financing activities	10,597,080	(1,360,343)
Net increase (decrease) in cash and cash equivalents	5,293,934	(4,415,223)
Cash and cash equivalents, including funds restricted for expansion, beginning of year	12,567,890	16,983,113
Cash and cash equivalents, including funds restricted for expansion, end of year	\$ 17,861,824	\$ 12,567,890
Supplemental disclosure of activities:		
Cash paid for interest	\$ 2,310,024	\$ 2,413,666
Supplemental disclosure of noncash activities:		
Fixed asset acquisitions remaining in accounts payable and accrued expenses	\$ 159,909	\$ 37,076

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Nature of Operations

Founded in 1799, the Peabody Essex Museum ("PEM" or "the Museum") is a museum of international art and culture dedicated to connecting art to the world in which it is made. 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, together representing more than 12,000 years of global artistic and cultural creations. In 2019, the Museum opened a new 40,000 square foot wing to provide new gallery space for collection installation and a 5,000 square foot garden.

PEM's mission is to boldly honor creativity as a nourishing force in people's lives. PEM offers thought-provoking experiences of the arts, humanities, and sciences to activate understanding of our shared humanity and to empower imagination and learning through experimentation. PEM stewards, builds, and makes its collections accessible to encourage appreciation of the interconnected histories and creativity of people in our complex, always changing world. 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.

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.

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.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Classification and Reporting of Net Assets (Continued)

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.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include all highly liquid funds received with donor-imposed restrictions that are not held by investment managers. These funds are deposited in money market accounts and are used for expenditures that meet the donor restrictions.

Grants, ERC and Other Receivables

Grants receivable consist of receivables for amounts expended or due 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. See Note 11 for discussion on ERC.

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 policies 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.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

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 on the statements of activities.

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 policies 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 asserts that residual interest is not materially different from actual fair value.

Investments

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

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.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Fair Value Measurements (Continued)

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.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost when such amounts are above management's threshold of \$5,000 for capitalization and have a useful life of more than one year. 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 under \$5,000 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.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Land, Buildings and Equipment (Continued)

Construction in progress ("CIP") is stated at cost which relates to the cost of capital projects not yet placed in service. No depreciation expense is recorded on CIP until such time as the relevant assets are completed and placed into use.

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 statements 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.

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.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Revenue Recognition (Continued)

Earned Revenue (Continued)

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 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.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Revenue Recognition (Continued)

Contributed Support (Continued)

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 of the trailing 12 quarters, through March 31 prior to the start of the current fiscal year. Board designated funds that function as endowment are included in this calculation while other board designated funds are excluded. The percentage applied to the rolling average market value was 5% for the years ended June 30, 2023 and 2022. Amounts calculated on endowment funds with purpose restrictions are further subject to meeting the purpose restriction associated with the underlying donor agreement.

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.

Funds with deficiencies were reported in net assets with donor restrictions as follows at June 30:

	2023	2022
Fair value of underwater endowment funds	\$ 2,753,929	\$ 2,497,478
Original endowment gift amount	<u>2,876,773</u>	<u>2,775,873</u>
Deficiencies of underwater endowment funds	<u>\$ (122,844)</u>	<u>\$ (278,395)</u>

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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 and Nonoperating 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, nonoperating grants and contributions, depreciation, gain on disposal of fixed assets, satisfaction of plant related program restrictions, 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 statements 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.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

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.

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 statements of activities. The statements of functional expenses present 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 statements 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.

Accounting Pronouncements Effective in Future Years

Management is aware of and currently evaluating pending accounting standards and expects that those standards will have limited impact.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Reclassifications

Certain reclassifications have been made to the 2022 financial statements in order to conform to the current presentation. Such reclassifications had no effect on changes in net assets.

Subsequent Events

The Museum performed an evaluation of subsequent events through December 8, 2023, the date the financial statements were authorized to be issued and determined that no items required adjustment or disclosure within these statements.

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:

	2023	2022
Cash and cash equivalents	\$ 3,647,798	\$ 4,093,059
Grants and other receivables	33,922	6,425
Endowment spend rate approved for next year's operations	24,643,794	23,281,996
Budgeted releases of funds	<u>2,596,752</u>	<u>1,893,297</u>
Total financial assets available to meet general expenditures over the next 12 months	\$ <u>30,922,266</u>	\$ <u>29,274,777</u>

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 3 - Pledges Receivable, Net

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

	2023	2022
Within one year	\$ 1,084,298	\$ 824,400
One to five years	1,818,810	2,274,937
More than five years	<u>3,600,000</u>	<u>3,200,000</u>
Total pledges receivable	6,503,108	6,299,337
Less: Present value discount	(1,026,232)	(990,856)
Less: Allowance for uncollectible pledges	(5,000)	(5,000)
Less: Current portion	<u>(1,084,298)</u>	<u>(824,400)</u>
Pledges receivable - noncurrent	<u><u>\$ 4,387,578</u></u>	<u><u>\$ 4,479,081</u></u>

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:

	2023			
	Total Fair Value	Investments Valued at Net Asset Value	Fair Value Level 1	Fair Value Level 3
Cash equivalents	\$ 20,089,261	\$ -	\$ 20,089,261	\$ -
Domestic equities and funds	113,422,320	99,159,071	14,263,249	-
International equities and funds	56,175,292	56,175,292	-	-
Fixed income and funds	67,837,538	67,837,538	-	-
Hedge funds	134,746,405	134,746,405	-	-
Real estate limited partnerships	10,690,442	10,690,442	-	-
Private equity	175,795,319	170,494,775	-	5,300,544
Commodities	<u>8,068,958</u>	<u>-</u>	<u>8,068,958</u>	<u>-</u>
Total investments	<u><u>\$ 586,825,535</u></u>	<u><u>\$ 539,103,523</u></u>	<u><u>\$ 42,421,468</u></u>	<u><u>\$ 5,300,544</u></u>
Funds held by others	<u><u>\$ 4,525,239</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,525,239</u></u>
Assets and residual interests under split-interest agreements	<u><u>\$ 1,981,394</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,172,826</u></u>	<u><u>\$ 808,568</u></u>

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

	2022			
	Total Fair Value	Investments Valued at Net Asset Value	Fair Value Level 1	Fair Value Level 3
Cash equivalents	\$ 21,163,109	\$ -	\$ 21,163,109	\$ -
Domestic equities and funds	78,293,845	57,549,680	20,744,165	-
International equities and funds	53,741,547	53,741,547	-	-
Fixed income and funds	92,951,629	73,264,069	19,687,560	-
Hedge funds	129,051,735	129,051,735	-	-
Real estate limited partnerships	11,573,379	11,573,379	-	-
Private equity	172,511,655	166,312,006	-	6,199,649
Commodities	7,568,234	-	7,568,234	-
Total investments	<u>\$ 566,855,133</u>	<u>\$ 491,492,416</u>	<u>\$ 69,163,068</u>	<u>\$ 6,199,649</u>
Funds held by others	<u>\$ 4,321,833</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,321,833</u>
Assets and residual interests under split-interest agreements	<u>\$ 2,021,328</u>	<u>\$ -</u>	<u>\$ 1,281,863</u>	<u>\$ 739,465</u>

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 \$67 million and \$72 million at June 30, 2023 and 2022, respectively.

The Board has approved appropriations from its investment funds of \$24,643,794 for fiscal year 2024 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.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Investments valued at Net Asset Value and Level 3 Investments may be redeemed on the following basis at June 30:

	2023	2022
Under 90 days	\$ 217,302,262	\$ 234,004,866
90 days to 1 year	115,331,811	54,723,614
Over 1 year	39,859,340	51,889,825
Illiquid	<u>171,910,654</u>	<u>157,073,760</u>
Total	\$ <u>544,404,067</u>	\$ <u>497,692,065</u>

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

	<i>Funds Held by Others</i>	<i>Residual Interests</i>	<i>Private Equity</i>
Balance as of July 1, 2021	\$ 5,044,178	\$ 784,012	\$ 4,240,978
Net unrealized gains	-	-	1,363,635
Net investment expenses	-	-	(89,309)
Purchases and additions	-	-	966,543
Sales	-	-	(282,198)
Change in value	<u>(722,345)</u>	<u>(44,547)</u>	<u>-</u>
Balance as of June 30, 2022	4,321,833	739,465	6,199,649
Net unrealized losses	-	-	(1,535,377)
Net investment expenses	-	-	-
Purchases and additions	-	-	636,272
Sales	-	-	-
Change in value	<u>203,406</u>	<u>69,103</u>	<u>-</u>
Balance as of June 30, 2023	\$ <u>4,525,239</u>	\$ <u>808,568</u>	\$ <u>5,300,544</u>

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 5 - Land, Buildings and Equipment

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

	2023	2022
Land	\$ 4,581,766	\$ 4,581,766
Buildings	181,630,667	181,630,667
Capital improvements	83,277,883	82,589,500
Leasehold improvements	228,638	228,638
Furniture, fixtures and equipment	21,011,455	20,296,422
Historic houses	<u>999,528</u>	<u>999,528</u>
Total	291,729,937	290,326,521
Accumulated depreciation	<u>(119,517,857)</u>	<u>(110,756,355)</u>
Total	172,212,080	179,570,166
Construction in progress	<u>7,077,070</u>	<u>6,715,544</u>
Land, buildings and equipment, net	\$ <u>179,289,150</u>	\$ <u>186,285,710</u>

Depreciation expense was \$8,848,651 and \$8,895,572 for the years ended June 30, 2023 and 2022, respectively. During the year ended June 30, 2023, the Museum disposed of property, plant and equipment resulting in a gain of \$11,344.

The Museum has construction in progress related to various building projects. Contractually committed costs to complete CIP amounted to \$267,400 at June 30, 2023. See Note 9.

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 \$687,380 and \$744,051 for the years ended June 30, 2023 and 2022, respectively.

Deferred Compensation Plan

The Museum has a nonqualified 457(b) plan for certain key employees. Elective deferrals by the eligible employee may be made to the plan along with amounts as determined on an annual basis by the Board, up to the maximum permitted by law. Total contributions to the plan were \$20,500 and \$10,250 for the years ended June 30, 2023 and 2022, respectively. Distributions are made upon termination of employment.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 7 - Notes Payable

Notes payable consisted of the following at June 30:

	2023	2022
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.	\$ 50,050,000	\$ 52,250,000
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 2043. This note is privately placed with a bank.	18,954,000	19,926,000
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 2043.	<u>1,664,156</u>	<u>1,749,497</u>
Total outstanding notes	70,668,156	73,925,497
Less current portion of notes payable	3,257,341	3,257,341
Less bond issuance costs (net of amortization)	<u>296,480</u>	<u>324,393</u>
Note payable, net of current portion	<u><u>\$ 67,114,335</u></u>	<u><u>\$ 70,343,763</u></u>

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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:

2024	\$ 3,257,341
2025	3,257,341
2026	3,257,341
2027	3,257,341
2028	3,257,341
Thereafter	<u>54,381,451</u>
	<u><u>\$ 70,668,156</u></u>

Note 8 - Net Assets and Endowment Matters

Net Assets Without Donor Restrictions

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

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 and acquisitions. 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.

	2023	2022
Net investment in land, buildings and equipment	\$ 107,771,774	\$ 111,582,150
Board-designated:		
Functioning as endowment	15,705,241	12,986,120
Funds for strategic purposes	32,014,823	31,200,438
Operating	<u>9,615,976</u>	<u>10,430,164</u>
	<u><u>\$ 165,107,814</u></u>	<u><u>\$ 166,198,872</u></u>

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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:

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.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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 is as follows:

	2023	2022
Spendable funds with time and purpose restrictions:		
Restricted for programs and collections	\$ 19,709,372	\$ 11,473,120
Restricted for strategic purposes, including expansion project	7,348,703	9,769,524
Pledges receivable on amounts with time and purpose restrictions	2,209,447	1,847,253
Funds held by others with purpose restrictions	632,111	521,199
Split-interest agreements with purpose restrictions	898,802	826,546
Endowment funds (*):		
Unrealized accumulated unspent gains on endowment funds:		
In general support of the Museum	166,025,249	156,310,868
With purpose restrictions	23,021,355	22,130,187
Functioning as endowment for program support	5,767,056	5,626,860
Endowment funds restricted in perpetuity:		
In general support of the Museum	303,462,348	299,230,813
With purpose restrictions	22,457,713	21,310,718
Funds held by others	3,893,128	3,800,634
Split-interest agreements	736,098	826,963
Pledges receivable for amounts to be restricted in perpetuity	3,262,429	3,456,227
Historic houses held in perpetuity	999,528	999,528
Total net assets with donor restrictions	\$ 560,423,339	\$ 538,130,440

(*) Total endowment funds amounted to \$525,362,947 and \$509,237,043 as of June 30, 2023 and 2022, respectively. 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.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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 years ended June 30:

	2023	2022
Satisfaction of restrictions:		
Programs and collections purposes	\$ 4,134,776	\$ 3,575,448
Strategic purposes, including expansion project	<u>3,673,214</u>	<u>5,416,087</u>
	<u><u>\$ 7,807,990</u></u>	<u><u>\$ 8,991,535</u></u>

Releases of net assets with donor restrictions are reported on the statements of activities as follows for the years ended June 30:

	2023	2022
Operating support and revenue:		
Satisfaction of program restrictions	\$ 3,079,360	\$ 2,404,561
Nonoperating activities:		
Plant related satisfaction of program restrictions	4,583,291	5,990,039
Satisfaction of program restrictions - collection items purchased	<u>145,339</u>	<u>596,935</u>
	<u><u>\$ 7,807,990</u></u>	<u><u>\$ 8,991,535</u></u>

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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 years ended June 30:

	2023		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment assets and those functioning as endowment assets, beginning of year	\$ 12,986,120	\$ 509,237,043	\$ 522,223,163
Gifts and additions (excluding non-cash pledge activity)	2,380,995	4,881,976	7,262,971
Investment returns:			
Interest and dividends, net of investment expenses	29,384	1,523,994	1,553,378
Net realized and unrealized gains	937,862	33,051,351	33,989,213
Total investment returns	967,246	34,575,345	35,542,591
Expenditures:			
Amounts appropriated	(629,120)	(23,331,417)	(23,960,537)
Change in investments	2,719,121	16,125,904	18,845,025
Endowment assets and those functioning as endowment assets, end of year	\$ 15,705,241	\$ 525,362,947	\$ 541,068,188
	2022		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment assets and those functioning as endowment assets, beginning of year	\$ 13,693,394	\$ 550,942,286	\$ 564,635,680
Gifts and additions (excluding non-cash pledge activity)	810,547	1,292,141	2,102,688
Investment returns:			
Interest and dividends, net of investment expenses	(86,900)	(2,131,024)	(2,217,924)
Net realized and unrealized losses	(521,665)	(18,860,434)	(19,382,099)
Total investment returns	(608,565)	(20,991,458)	(21,600,023)
Expenditures:			
Amounts appropriated	(909,256)	(22,005,926)	(22,915,182)
Change in investments	(707,274)	(41,705,243)	(42,412,517)
Endowment assets and those functioning as endowment assets, end of year	\$ 12,986,120	\$ 509,237,043	\$ 522,223,163

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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 \$267,400 at June 30, 2023. There were no construction contract commitments at June 30, 2022.

Note 10 - Related Party Transactions

The Museum has a note receivable with interest accrued at the applicable federal mid-term rate from an officer of the Museum as follows at June 30:

	2023	2022
Residential note	\$ <u>304,998</u>	\$ <u>305,816</u>

Note 11 - Federal Support Associated with COVID-19

Employee Retention Credits

The Museum determined it was eligible for the employee retention credit ("ERC") program in 2022 and recorded revenue of \$1,073,444 for the year ended 2022. Under the terms of the program, the Museum must incur qualifying wage or health insurance costs and have either suspended operations under governmental order or experience specific declines in gross receipts. Included in grants, ERC and other receivables is \$2,055,909 and \$2,996,206 of ERC receivables at June 30, 2023 and 2022, respectively.