HARVEY & MARTIN, PLLC

CAPE ANN MUSEUM, INC.

AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021

CONTENTS

	Page
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to the Financial Statements	9-21

HM CPA
HARVEY & MARTIN, PLLC

Kathleen P. Melia, CPA
Bernard F. Hoar, Jr., CPA
Jodi A. Anselmo, CPA

James A. Martin Jr., CPA
Of Counsel

INDEPENDENT AUDITOR'S REPORT

May 31, 2023

To the Board of Directors
Cape Ann Museum, Inc.
27 Pleasant Street
Gloucester, Massachusetts 01930

Opinion

We have audited the accompanying financial statements of Cape Ann Museum, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, 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 financial statements referred to above present fairly, in all material respects, the financial position of Cape Ann Museum, Inc. as of December 21, 2022 and 2021, 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cape Ann Museum, Inc. 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 Cape Ann Museum, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Cape Ann Museum, Inc.'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 Cape Ann Museum, Inc.'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.

Yours truly,

Harvey & Martin

Gloucester, Massachusetts

CAPE ANN MUSEUM, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

--ASSETS--

	2022	2021
CURRENT ASSETS:		
Cash and cash equivalents (Notes 2 and 13)	$ 2,152,710	$ 1,618,171
Unconditional promises to give (Note 10)	478,333	660,324
Employee retention credit receivable	108,918	108,918
Inventory - gift shop (Note 2)	62,361	66,547
Prepaid expenses	20,166	12,412
Deposits	54,534	12,109
Total current assets	2,877,022	2,478,481
PROPERTY AND EQUIPMENT - NET (Note 4)	10,670,226	10,858,891
OTHER ASSETS:		
Investments (Notes 2, 3, and 11)	13,206,759	14,833,208
Right-of-use asset (Note 2)	342,465	-
Unconditional promises to give (Note 10)	835,989	1,333,392
Collections (Note 5)	1	1
Total other assets	14,385,214	16,166,601
TOTAL	$ 27,932,462	$ 29,503,973

--LIABILITIES AND NET ASSETS--

CURRENT LIABILITIES:		
Lines of credit (Note 6)	$ 1,714,468	$ 1,864,708
Accounts payable and accrued expenses	166,969	59,028
Current portion - operating lease liability (Note 2)	178,677	-
Total current liabilities	2,060,114	1,923,736
OPERATING LEASE LIABILITY (NOTE 2)	163,788	-
Total liabilities	2,223,902	1,923,736
NET ASSETS: (Notes 8 and 9)		
Without donor restrictions:		
Unrestricted	15,872,728	18,239,151
Board designated endowment	3,000,000	3,000,000
With donor restrictions	6,835,832	6,341,086
Total net assets	25,708,560	27,580,237
TOTAL	$ 27,932,462	$ 29,503,973

The accompanying notes are an integral part of these financial statements.

CAPE ANN MUSEUM, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions			With Donor Restrictions	2022 TOTAL
	Operating	Non-Operating	Total		
Revenues:					
Memberships	$ 354,079	$ -	$ 354,079	$ -	$ 354,079
Donations	844,871	292	845,163	1,475,808	2,320,971
Admissions	83,337	-	83,337	-	83,337
Sales	138,233	-	138,233	-	138,233
Exhibits, programs, and events	275,727	-	275,727	-	275,727
Grants	102,620	-	102,620	497,119	599,739
Endowment draw	542,634	(441,727)	100,907	(100,907)	-
Interest income	2,681	652	3,333	-	3,333
Investment income, net	-	142,987	142,987	39,376	182,363
Net realized/unrealized losses	-	(1,860,105)	(1,860,105)	(502,192)	(2,362,297)
Net assets released from restrictions	406,487	507,971	914,458	(914,458)	-
Total revenue and support	2,750,669	(1,649,930)	1,100,739	494,746	1,595,485
Expenses:					
Programs	1,822,890	569,971	2,392,861	-	2,392,861
Management and general	563,615	43,714	607,329	-	607,329
Fundraising	443,801	23,171	466,972	-	466,972
Total expenses	2,830,306	636,856	3,467,162	-	3,467,162
CHANGE IN NET ASSETS	(79,637)	(2,286,786)	(2,366,423)	494,746	(1,871,677)
NET ASSETS - BEGINNING	389,804	20,849,347	21,239,151	6,341,086	27,580,237
NET ASSETS - ENDING	$ 310,167	$ 18,562,561	$ 18,872,728	$ 6,835,832	$ 25,708,560

The accompanying notes are an integral part of these financial statements.

CAPE ANN MUSEUM, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions				
	Operating	Non-Operating	Total	With Donor Restrictions	2021 TOTAL
Revenues:					
Memberships	$ 333,285	$ -	$ 333,285	$ -	$ 333,285
Donations	749,141	(93,000)	656,141	520,555	1,176,696
Bequests	-	69,796	69,796	-	69,796
Admissions	63,237	-	63,237	-	63,237
Sales	94,165	-	94,165	-	94,165
Exhibits, programs, and events	187,272	-	187,272	-	187,272
Grants	98,300	100,000	198,300	247,990	446,290
Endowment draw	448,434	(364,263)	84,171	(84,171)	-
Interest income	1,732	-	1,732	-	1,732
Investment income, net	-	163,048	163,048	46,350	209,398
Net realized/unrealized gains	-	1,416,989	1,416,989	389,618	1,806,607
Forgiveness of paycheck protection loan	177,595	-	177,595	-	177,595
Employee retention credit	421,525	-	421,525	-	421,525
Net assets released from restrictions	199,540	677,730	877,270	(877,270)	-
Total revenue and support	2,774,226	1,970,300	4,744,526	243,072	4,987,598
Expenses:					
Programs	1,520,115	445,523	1,965,638	-	1,965,638
Management and general	436,385	41,480	477,865	-	477,865
Fundraising	449,252	4,609	453,861	-	453,861
Total expenses	2,405,752	491,612	2,897,364	-	2,897,364
CHANGE IN NET ASSETS	368,474	1,478,688	1,847,162	243,072	2,090,234
NET ASSETS - BEGINNING	21,330	19,370,659	19,391,989	6,098,014	25,490,003
NET ASSETS - ENDING	$ 389,804	$ 20,849,347	$ 21,239,151	$ 6,341,086	$ 27,580,237

The accompanying notes are an integral part of these financial statements.

CAPE ANN MUSEUM, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	2022 TOTAL
Payroll	$ 641,927	$ 243,489	$ 221,354	$ 1,106,770
Payroll taxes and benefits	94,823	35,967	32,697	163,487
Total payroll and related expenses	736,750	279,456	254,051	1,270,257
Accounting and legal	-	28,500	-	28,500
Advertising and public relations	101,633	-	-	101,633
Collections	69,014	-	-	69,014
Cost of sales	87,220	-	-	87,220
Exhibits, programs, and events	195,686	-	107,099	302,785
Information technology	71,457	27,104	24,640	123,201
Insurance	55,738	23,888	-	79,626
Interest expense	55,507	-	-	55,507
Member services	84,923	-	-	84,923
Office and other	74,416	25,456	23,142	123,014
Outside services	176,119	118,530	18,314	312,963
Repairs and maintenance	154,335	25,434	2,826	182,595
Security	6,847	2,597	2,361	11,805
Utilities	86,078	32,650	29,682	148,410
Total expenses before depreciation	1,955,723	563,615	462,115	2,981,453
Depreciation and amortization	437,138	43,714	4,857	485,709
Total expenses	$ 2,392,861	$ 607,329	$ 466,972	$ 3,467,162

The accompanying notes are an integral part of these financial statements.

CAPE ANN MUSEUM, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	2021 TOTAL
Payroll	$ 534,551	$ 204,101	$ 233,259	$ 971,911
Payroll taxes and benefits	72,440	27,659	31,610	131,709
Total payroll and related expenses	606,991	231,760	264,869	1,103,620
Accounting and legal	-	28,710	-	28,710
Advertising and public relations	76,241	-	-	76,241
Collections	63,214	-	-	63,214
Cost of sales	51,278	-	-	51,278
Exhibits, programs, and events	150,908	-	63,523	214,431
Information technology	37,297	14,241	16,275	67,813
Insurance	63,355	27,152	-	90,507
Interest expense	60,440	57	-	60,497
Member services	75,227	-	-	75,227
Office and other	62,789	22,443	25,650	110,882
Outside services	59,104	53,812	36,800	149,716
Repairs and maintenance	153,449	23,640	2,627	179,716
Security	5,667	2,164	2,473	10,304
Utilities	84,873	32,406	37,035	154,314
Total expenses before depreciation	1,550,833	436,385	449,252	2,436,470
Depreciation and amortization	414,805	41,480	4,609	460,894
Total expenses	$ 1,965,638	$ 477,865	$ 453,861	$ 2,897,364

The accompanying notes are an integral part of these financial statements.

CAPE ANN MUSEUM, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ (1,871,677)	$ 2,090,234
Adjustments:		
Depreciation and amortization	485,709	460,894
Realized and unrealized (gains) losses on investments	2,362,297	(1,806,607)
Forgiven paycheck protection program loan proceeds	-	(177,595)
Employee retention credit receivable	-	(108,918)
Contributions received for long-term purposes	-	(260,000)
(Increase) decrease in operating assets:		
Unconditional promises to give	679,394	553,527
Prepaid expenses	(7,754)	19,226
Right-of-use asset	(342,465)	-
Inventory	4,186	10,387
Deposits	(42,425)	-
Decrease in operating liabilities:		
Accounts payable and accrued expenses	107,941	(12,836)
Operating lease liability	342,465	-
Deferred membership revenue	-	(4,333)
CASH PROVIDED BY OPERATING ACTIVITIES	1,717,671	763,979
INVESTING ACTIVITIES:		
Purchase of property and equipment	(297,044)	(259,564)
Purchase of investments	(7,554,955)	(5,297,627)
Proceeds from sales of investments	6,819,107	5,907,973
CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,032,892)	350,782
FINANCING ACTIVITIES:		
Net payments on lines of credit	(150,240)	(1,131,000)
Paycheck protection program loan proceeds	-	177,595
Contribution to endowment	-	260,000
CASH USED BY FINANCING ACTIVITIES	(150,240)	(693,405)
NET CHANGE IN CASH AND CASH EQUIVALENTS	534,539	421,356
CASH AND CASH EQUIVALENTS - BEGINNING	1,618,171	1,196,815
CASH AND CASH EQUIVALENTS - ENDING	$ 2,152,710	$ 1,618,171
SUPPLEMENTAL DISCLOSURE:		
Interest paid	$ 55,509	$ 61,551

The accompanying notes are an integral part of these financial statements.

1. OPERATIONS

The Museum, a public, not-for-profit organization, was founded in 1873, incorporated in Massachusetts in 1876 and changed its name to "Cape Ann Museum, Inc." in 2014. Its purposes are the ownership, operation, preservation, and exhibition of historical buildings, objects and records, and works of art. The Museum maintains a historic house at 27 Pleasant Street, Gloucester, supplemented by two modern wings where its collections are exhibited. The Museum also maintains the historic White-Ellery house and Babson-Alling house as part of an almost 4-acre campus at 13 Poplar Street, Gloucester. A centerpiece of this property is the newly completed Collections Center including an Exhibitions/ Education flex space. This campus, titled the Cape Ann Museum Green, encompasses use of a property at 11 Poplar Street, Gloucester. The Museum sponsors special exhibits, lectures, films, concerts, and excursions for its members and for the public.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of presentation

The financial statements of the Museum have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities.

The Museum is required to report information regarding its financial position and activities based on the existence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – net assets available for use in general operations and not subject to donor or certain grantor restrictions reported as increases in net assets without donor restrictions.

Net assets with donor restrictions – net assets subject to donor (or certain grantor) imposed restrictions. Some donor or grantor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are permanent in nature, where the donor stipulates that resources be maintained in perpetuity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

A. Basis of presentation (continued)

Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions until the restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Gifts of long-lived assets and cash restricted for the acquisition of long-lived assets are recognized as contributions with donor restrictions when received or acquired and the restriction is released when the assets are placed in service.

B. Investments

The Museum reports investments in marketable equity securities with readily determinable fair market values at fair market value.

C. Cash and cash equivalents

Cash consists of the Museum’s checking accounts for operations and capital campaign funds. Certain money market funds and time deposits designated by the Board and held by the Museum's Investment Custodian are not deemed to be cash.

D. Donated services

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Museum’s programs and activities. The value of this contributed time is not susceptible to objective measurement and valuation and therefore is not reflected in the accompanying financial statements.

E. Inventory

Inventory primarily consists of publications, photos, postcards, and other items of historical content as well as educational and household items relevant to the Museum’s programs. These are sold to the public in the Museum's gift shop. Inventory is valued at the lower of cost (first-in, first-out method) or market.

F. Accrued compensated absences

The Museum does not provide for carryover of compensated absences and therefore no accrual is made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

G. Tax positions and filings

The Museum has been granted tax-exempt status under Internal Revenue Code Section 501(c) (3) and is, therefore, generally exempt from federal and state income taxes. Accordingly, no provision for income taxes has been provided in the accompanying financial statements. The Museum is not a private foundation.

The Museum is required to evaluate or disclose tax positions that could have an effect on the Museum's financial statements. The Museum reports its activities to the Internal Revenue Service and to the Commonwealth of Massachusetts on an annual basis. These informational returns are generally subject to audit and review by the government agencies for a period of three years after filing. Substantially all of the Museum's income, expenditures, and activities relate to its exempt purpose, therefore, management has determined that the Museum is not subject to unrelated business income taxes and will continue to qualify as a tax-exempt not-for-profit entity.

The Museum has filed all of its known required returns in a timely manner including, as permitted, allowed extensions. As of December 31, 2022, the Return of Organization Exempt From Income Tax on Form 990 for the years after 2018 remain open to examination by the Internal Revenue Service and the Massachusetts Attorney General's Office.

H. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, right-of-use asset, lease liability, allocations of expense to functional categories, depreciation and amortization, accrued liabilities, and other reserves. Accordingly, actual results could differ from those estimates.

I. Functional allocation of expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

J. Advertising costs

Advertising costs are charged to operations as incurred. Advertising expense for the years ended December 31, 2022 and 2021 was $16,838 and $18,664, respectively.

K. Adopted Accounting Pronouncements

As of January 1, 2022, the Museum has adopted the Financial Accounting Standards Board's (the "FASB") Accounting Standards Update ("ASU") No. 2020-07, Not-for-Profit Entities (Topic 958) Presentation and Disclosures for Not-for-Profit Entities for Contributed Nonfinancial Assets. The guidance requires that contributed nonfinancial assets be reported in the statement of activities apart from contributions of cash and other financial assets. Disclosures are required for the disaggregation of the amount of contributed nonfinancial assets recognized in the statement of activities by category and type, qualitative information about whether the contributed nonfinancial assets were monetized or utilized, a description of the program(s) if utilized, polices surrounding monetization and utilization, donor imposed restrictions, valuation techniques and inputs to arrive at fair value, and information about the principal market used to determine fair value. The Museum adopted the standard using the retrospective transition method and determined that there is no impact on the financial statements.

As of January 1, 2022, the Museum has adopted the FASB ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), and additional ASUs issued to clarify and update the guidance in ASU 2016-02 (collectively, the "new leases standard"), which modifies lease accounting for lessees to increase transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements. The Museum adopted the new leases standard utilizing the modified retrospective transition method, more specifically the "do not adjust comparative periods" approach, under which amounts in prior periods presented were not restated.

The Museum considered the impact of the cumulative effect of the change in accounting method to net assets as of January 1, 2022. There was no cumulative effect of the change in accounting method to net assets as of January 1, 2022.

Upon adoption, the Museum recorded $521,142 of operating right-of-use ("ROU") assets and $521,142 of lease liabilities on its statement of financial position.

3. INVESTMENTS

All investments are considered endowment funds and are presented in the financial statements at fair value and consist of the following at December 31, 2022 and 2021:

3. INVESTMENTS (CONT.)

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents (Note 2)	$ 191,426	$ 191,426	$ 189,903	$ 189,903
Fixed income securities	4,413,142	4,126,856	2,497,102	2,421,706
Alternate securities	419,117	415,080	740,957	734,081
Equity	7,185,557	8,473,397	7,918,638	11,487,518
Total	$12,209,242	$13,206,759	$11,346,600	$14,833,208

Investments are restricted as follows:

	2022	2021
Without donor restrictions:		
Board designated endowment	$ 3,000,000	$ 3,000,000
Without donor restrictions	7,479,817	8,542,543
Total	10,479,817	11,542,543
With donor restrictions	2,726,942	3,290,665
Total investments	$13,206,759	$14,833,208

	2022	2021
Investment income, net:		
Without donor restrictions	$ 143,639	$ 163,048
With donor restrictions	39,376	46,350
Total	183,015	209,398
Net realized/unrealized gains (losses):		
Without donor restrictions	(1,860,105)	1,416,989
With donor restrictions	(502,192)	389,618
Total	(2,362,297)	1,806,607
Total investment gain (loss)	$ (2,179,282)	$ 2,016,005

The endowment funds are monitored by the finance committee with the advice of its money manager and are subject to the overall investment policy statement revised in 2019. This policy adopts a 10 year investment horizon and has as its objective a goal to preserve and maintain the principal with a balanced portfolio of diversified investments. With the exception of the Margaret Farrell Lynch Fund, the spending policy is set by the Board of Directors and reviewed annually.

4. PROPERTY AND EQUIPMENT

Land, buildings, and equipment are located in Gloucester, Massachusetts, and are carried at cost or fair market value for donated items. Expenditures for maintenance and repairs are charged to expense in the current period. Major repairs and acquisitions, greater than $1,500, with a useful life greater than one year are capitalized and depreciated/amortized using the straight-line method over estimated useful lives ranging from three to forty years. A summary of land, buildings, equipment, and accumulated depreciation and amortization is detailed below:

	2022	2021
Cape Ann Museum buildings and improvements	$ 8,986,806	$ 8,830,469
Collections storage facility	5,132,160	5,101,026
Sculpture Park - 26 Pleasant Street	624,096	624,096
Babson - Alling House	647,996	542,673
White - Ellery House and Barn - 247 Washington Street	335,399	331,149
Furniture and fixtures	327,542	327,542
Office and program equipment	127,274	127,274
Website and software	117,658	117,658
	16,298,931	16,001,887
Less: Accumulated depreciation and amortization	(5,628,705)	(5,142,996)
Total land, buildings, and equipment	$10,670,226	$10,858,891

Total depreciation and amortization expense for the years ended December 31, 2022 and 2021 was $485,708 and $460,894, respectively.

5. COLLECTIONS

Collections consist of works of art, objects, artifacts, and records reflective of the Museum and its heritage. Collection items, whether purchased or donated, are not capitalized because their intrinsic value is not susceptible to reasonable estimation. The collection is carried at $1.00. It is the policy of the Museum that proceeds from the sale of collection items will be used to purchase additional collection items or to maintain or preserve the collection. New acquisitions are then charged as collection acquisitions.

The Collections of the Museum are its primary asset and their display and accessibility to the public are two of its primary objectives. A collections committee monitors the acquisition and disposition of collection items. The committee and management are responsible for recommending and implementing measures to enhance the conservation, maintenance, and security of the collection.

6. LINES OF CREDIT

The Museum has an available line of credit to draw upon as needed for operating activities. The current terms for this line allow borrowing of up to $200,000. The line carries a current interest rate of 3.25% and is secured by all business assets. The outstanding balance was $0 at December 31, 2022 and 2021. There was $200,000 available to draw upon at December 31, 2022 and 2021.

The Museum has an available line of credit to draw upon as needed for capital activities. The current terms for this line allow borrowing of up to $3,000,000. The line carries a current interest rate of 2.75% and is secured by investments. The outstanding balance was $1,714,468 and $1,864,708 at December 31, 2022 and 2021, respectively. There was $1,285,532 and $1,135,292 available to draw upon at December 31, 2022 and 2021, respectively.

7. REVENUE RECOGNITION

The Museum is dependent on membership and donation revenue and its ability to collect amounts owed on unconditional promises to give. The success of the economy as a whole impacts the nature, amount, timing, and uncertainty of revenues and cash flows. Revenue from memberships is comprised of various levels of membership categories paid in advance of expiration. Deferred revenue from these membership levels were as follows:

	Deferred Revenue	
	2022	2021
Beginning of the year	$ -	$ 4,333
End of the year	$ -	$ -

8. BOARD DESIGNATED ENDOWMENT

The Board of Directors voted in December 1997 that $2,000,000 of otherwise unrestricted investments will be held as a "Board Designated Endowment" to preserve and protect the future financial security of the Museum. The Museum fully funded this vote with the transfer of funds to its Investment Custodian in January 1999. In December 2018, the Board designated endowment was increased to $3,000,000. Appropriations of the board designated funds are subject to specific board approval. These funds are invested alongside all other endowment funds.

9. NET ASSETS WITH DONOR RESTRICTIONS

A. Specified activities

The Museum received various grants and donations that were donor restricted for their intended purpose. The following summarizes the unexpended balances for these activities at December 31, 2022 and 2021:

	2022	2021
Undesignated campaign	$ 1,589,291	$ 670,489
Endowment	1,460,000	1,825,000
Exhibits and programs	367,576	67,998
Collections	342,290	156,942
Education programs	166,985	130,480
Operations support	137,500	137,500
Digital	44,736	-
Museum buildings construction and improvement	512	62,012
Total Specified Activities	$ 4,108,890	$ 3,050,421

B. Capital Campaign

In June 2019, the Museum commenced a capital campaign to address funding needs at Cape Ann Museum Green and 27 Pleasant Street and to raise funds for the endowment. Proposed projects for the Campaign include the construction of a new collections center and flexible gallery space at Cape Ann Museum Green and updates to core facility systems at 27 Pleasant Street.

Additionally, the Campaign will be used to fund the creation of a “Collector's Gallery” at 27 Pleasant Street and to reimagine space that has been repurposed as a result of now having offsite storage for the Collection at Cape Ann Museum Green. As of December 31, 2022 and 2021, unexpended net assets of the capital campaign donations totaled $3,049,291 and $2,495,489, respectively.

C. Endowment funds with donor restrictions

The Catalina Davis Fund, established in 1928, is a perpetual Fund wherein the Museum does not have the right to receive principal. All capital gains are reinvested and added to corpus while the remainder of earnings are available for distribution to the Museum on a quarterly basis.

9. NET ASSETS WITH DONOR RESTRICTIONS (CONT.)

C. Endowment funds with donor restrictions (continued)

The Margaret Farrell Lynch Fund was established in February 2000 wherein the Museum has the right to income. All capital gains are reinvested and the remaining net income, after payment of investment fees, is distributed to the Museum on a monthly basis.

The Edward Hyde Cox Endowment Fund was established in April 2000 wherein the capital gains are reinvested and the remainder of net earnings are distributed to the Museum and used under the direction of the Trustees. The Museum may also use principal of the Fund, not to exceed $100,000, to purchase any real property adjacent or contiguous to the existing buildings of the Museum.

The endowment funds activity is summarized as follows:

December 31, 2020	$ 2,928,868
Earned income, net	46,350
Net realized/ unrealized gains	389,618
Current year contributions	10,000
Current year distributions	(84,171)
December 31, 2021	3,290,665
Earned income, net	39,376
Net realized/ unrealized losses	(502,192)
Current year contributions	-
Current year distributions	(100,907)
December 31, 2022	$ 2,726,942

10. UNCONDITIONAL PROMISES TO GIVE

At December 31, 2022 and 2021 the Museum had recorded unconditional promises to give totaling $1,314,322 and $1,993,716, respectively. The promises are recorded at fair value and, for amounts due in more than one year, are discounted using present value techniques and a discount rate of 2.75 percent for 2022 and 2021. The total discount at December 31, 2022 and 2021 totaled $43,344 and $71,941, respectively. Promises to give at December 31, 2022 and 2021 included amounts from members of the board totaling $1,321,330 and $1,988,890, respectively. An allowance for uncollectible promises was not established as of December 31, 2022 and 2021.

10. UNCONDITIONAL PROMISES TO GIVE (CONT.)

Maturities of promises to give are as follows:

	2022	2021
2022	$ -	$ 660,324
2023	478,333	464,560
2024	454,827	404,457
2025	229,224	369,670
2026	36,875	94,705
2027	58,319	-
2028	56,744	-
Total	$ 1,314,322	$ 1,993,716

11. FAIR VALUE OF INVESTMENTS

The Museum, in accordance with U.S. generally accepted accounting principles, implemented the following requirements related to the fair value measurements for its financial assets and liabilities. The adoption of these principles did not have a material impact on the Museum's financial position or results of operations. U.S. generally accepted accounting principles refines the definition of fair value, expands disclosure requirements about fair value measurements, and established specific requirements as well as guidelines for a consistent framework to measure fair value. U.S. generally accepted accounting principles defines fair value as the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants.

Further, U.S. generally accepted accounting principles require the Museum to maximize the use of observable market inputs, minimize the use of unobservable market inputs and disclose the form of an outlined hierarchy of the details of such fair value measurements.

U.S. generally accepted accounting principles specify a hierarchy of valuation techniques based on whether the inputs to fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Museum's market assumptions.

11. FAIR VALUE OF INVESTMENTS (CONT.)

This hierarchy requires the use of observable market data when available. These inputs have created the following value of hierarchy:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.
Level 2 – Observable inputs other than those included in Level 1. For example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets.
Level 3 – Unobservable inputs reflecting management's own assumptions about the inputs used in estimating the value of the asset.

The following table summarizes the Museum's financial assets measured at fair value on a recurring basis in accordance with U.S. generally accepted accounting principles as of December 31, 2022:

	Level 1	Level 2
Certificate of deposits (maturity dates from January 2023 - April 2028)	$ -	$ 1,333,634
Money market accounts	-	191,426
Fixed income securities	2,793,222	-
Alternative fixed income securities	-	415,080
Equity	8,473,397	-
Total	$11,266,619	$ 1,940,140

The following table summarizes the Museum's financial assets measured at fair value on a recurring basis in accordance with U.S. generally accepted accounting principles as of December 31, 2021:

	Level 1	Level 2
Cash	$ 4	$ -
Certificate of deposits (maturity dates from February 2021 - June 2023)	-	481,546
Money market accounts	-	189,899
Fixed income securities	1,940,160	-
Alternative fixed income securities	-	734,081
Equity	11,487,518	-
Total	$13,427,682	$ 1,405,526

12. NON-CASH INVESTING AND FINANCING ACTIVITIES

The Museum engaged in the following non-cash investing and financing activities during the year ended December 31, 2022:

Record commencement of operating right-of-use asset	$ 521,142
Record commencement of operating lease liability	(521,142)
Cash paid	$ -

13. LIQUIDITY

Financial assets of $13,136,234 and $13,821,039, at December 31, 2022 and 2021, respectively, were available for general expenditures in the following year. Included in these totals are net assets with donor restrictions totaling $3,272,901 and $1,717,477 at December 31, 2022 and 2021, respectively, for the Museum's specified activities for the purposes of funding the various programs and expenditures as they are incurred.

14. UNINSURED DEPOSITS

At December 31, 2022 and 2021, the Museum maintained cash accounts with one financial institution with balances in excess of federally insured limits of $250,000. The excess was insured by the Depositors Insurance Fund.

15. RELATED PARTY TRANSACTIONS

An officer of the Museum provided services for interior decoration totaling $1,992 for the year ended December 31, 2022. There were no amounts due to this related party included in accounts payable at December 31, 2022.

An officer of the Museum provided services for grounds maintenance totaling $16,019 for the year ended December 31, 2021. There were no amounts due to this related party included in accounts payable at December 31, 2021.

16. OPERATING LEASES

The Museum entered into a lease agreement beginning December 1, 2019 for $1,000 per month for five years. At the end of this lease, the Museum agrees to purchase the property for $500,000. A $100 deposit has been paid on the property. Minimum future rental payments under this operating lease are as follows:

December 31	Amount
2023	$ 12,000
2024	11,000
Total	$ 23,000

Rent expense charged to operations under this operating lease for the years ended December 31, 2022 and 2021 was $12,000 and $12,000, respectively.

17. EMPLOYEE RETENTION CREDIT

The Museum is eligible for the Employee Retention Credit ("ERC") under the CARES Act. $312,607 was received prior to December 31, 2021 in refund payments from Form 941 Employer Quarterly Federal Tax Return for the fourth quarter of 2020 and the first two quarters of 2021. Refunds receivable for the ERC at December 31, 2022 was $108,918 which represents a refund due on the 2021 Form 941 Employer Quarterly Federal Tax Return for the third quarter.

18. EMPLOYEE BENEFIT PLAN

Starting during the year ended December 31, 2021, the Museum sponsors a deferred compensation 401(K) plan which covers substantially all employees, whereby the employees choose to defer part of their compensation. During the years ended December 31, 2022 and 2021, the Museum's portion of the contribution recorded in the statement of activities was $29,158 and $9,570, respectively.

19. SUBSEQUENT EVENTS

The Museum has evaluated subsequent events through May 31, 2023, the date which the financial statements were available to be issued.