

## Communication with Those Charged with Governance at the Conclusion of the Audit

To the Board of Trustees  
Besser Museum for Northeast Michigan  
Alpena, Michigan

We have audited the financial statements of Besser Museum for Northeast Michigan (the “Museum”) for the year ended June 30, 2022 and have issued our report thereon dated October 13, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 7, 2022. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Matters

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Museum are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2022. We noted no transactions entered into by the Museum during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management’s estimate of the depreciation expense is based on management’s assumptions about the useful lives of its fixed assets.

Management’s estimate of the allocation of expenses by function.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate material adjustments to the appropriate level of management. Management has corrected all such misstatements.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 13, 2023.

### *Management Consultations with Other Independent Accountant*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Museum's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention of the Museum's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters – New Accounting Pronouncements

#### *FASB Accounting Standards Update for Leases*

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*. The new ASU leasing standard will require all leases be recorded on the Statement of Financial Position as a right-of-use asset and lease liability. The new standard will be effective for the Museum's fiscal year ending June 30, 2023.

This information is intended solely for the use of the Board of Trustees and management of Besser Museum for Northeast Michigan and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the opportunity to serve Besser Museum for Northeast Michigan. If you have any questions or if we can be of further service, please do not hesitate to contact us.

Very truly yours,

*Straley Lamp & Kraenzlein P.C.*

October 13, 2023

**BESSER MUSEUM FOR  
NORTHEAST MICHIGAN**

Financial Statements For The Year  
Ended June 30, 2022  
(With Comparative Information for 2021)

## Contents

	<b><u>Page</u></b>
<b>Independent Auditor's Report</b>	1
<b>Financial Statements</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
<b>Notes to Financial Statements</b>	7

## Independent Auditor's Report

Board of Trustees  
Besser Museum For Northeast Michigan  
Alpena, Michigan

### Opinion

We have audited the accompanying financial statements of Besser Museum for Northeast Michigan (a nonprofit organization) (the Museum), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

### Basis for Opinion

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

### Emphasis of Matter

As discussed in Note 18 to the financial statements, management discovered errors in the previously issued financial statements. As a result, a prior period adjustment was recognized as described in Note 18. Our opinion is not modified with respect to this matter.

### 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 within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

## **Report on Summarized Comparative Information**

We have previously audited the Museum's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 26, 2022. Subsequent to the issuance of our report, management discovered errors that resulted in the prior period adjustments referred to in Note 18. Accordingly, the 2021 comparative information has been restated. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived, with the exception of the amounts restated as disclosed in Note 18.

*Straley Kamp & Kraenzlein P.C.*

Alpena, MI

October 13, 2023

## Besser Museum of Northeast Michigan

### Statement of Financial Position

	June 30,	
<b>Assets</b>	2022	2021, Restated
Cash and cash equivalents	\$ 339,746	\$ 375,291
Accounts and grants receivable	150,692	181,380
Promises to give, net	-	2,917
Gift shop and fundraising inventory	56,648	26,337
Prepaid expenses and other assets	215	215
Investment - quasi-endowment	83,096	86,692
Beneficial interest - Community Foundation	28,009	145,978
Property and equipment, net	1,439,040	1,271,241
 Total assets	 \$ 2,097,446	 \$ 2,090,051
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 16,452	\$ 11,366
Accrued expenses and other liabilities	16,336	12,339
 Total liabilities	 32,788	 23,705
 <b>Net Assets</b>		
Net assets without donor restrictions		
Undesignated - general operating	541,022	526,609
Board designated		
Designated for endowment	1,500	1,500
Designated as quasi-endowment	83,096	86,692
Total board designated	84,596	88,192
Net investment in property and equipment	1,439,040	1,271,241
Total net assets without donor restrictions	2,007,122	1,886,042
Net assets with donor restrictions		
Purpose restrictions	57,536	180,304
 Total net assets	 2,064,658	 2,066,346
 Total liabilities and net assets	 \$ 2,097,446	 \$ 2,090,051

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

## Besser Museum of Northeast Michigan

### Statement of Activities

(With summarized comparative totals for the year ended June 30, 2021)

	For the Year Ended June 30, 2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Comparative Total, Restated
<b>Revenue, Support and Gains</b>				
Admissions	\$ 48,258	\$ -	\$ 48,258	\$ 21,771
Memberships	31,610	-	31,610	22,702
Gift shop sales	30,482	-	30,482	20,256
Less cost of goods sold	(9,447)	-	(9,447)	(14,167)
Net gift shop sales	21,035	-	21,035	6,089
Net investment return	(3,892)	(420)	(4,312)	10,259
Grants	328,665	19,000	347,665	316,129
Coronavirus relief funds	-	-	-	136,703
Contributions	19,800	13,410	33,210	35,420
Donated professional services	-	-	-	1,182
Donated nonfinancial asset	2,500	-	2,500	-
Other revenue	2,849	-	2,849	1,273
Gross special events revenue	6,380	-	6,380	3,602
Less cost of events	(1,000)	-	(1,000)	(442)
Net special events revenue	5,380	-	5,380	3,160
Designated fund distributions from the Community Foundation	79,028	-	79,028	18,125
Net assets released from restrictions	154,758	(154,758)	-	-
<b>Total revenue, support, and gains</b>	<b>689,991</b>	<b>(122,768)</b>	<b>567,223</b>	<b>572,813</b>
<b>Expenses and Losses</b>				
Program services expense	413,806	-	413,806	443,879
Management and general	130,009	-	130,009	131,084
Fundraising and development	25,096	-	25,096	21,826
<b>Total expenses</b>	<b>568,911</b>	<b>-</b>	<b>568,911</b>	<b>596,789</b>
<b>Change in net assets</b>	<b>121,080</b>	<b>(122,768)</b>	<b>(1,688)</b>	<b>(23,976)</b>
<b>Net assets</b> , beginning of year, restated	<b>1,886,042</b>	<b>180,304</b>	<b>2,066,346</b>	<b>2,090,322</b>
<b>Net assets</b> , end of year	<b>\$ 2,007,122</b>	<b>\$ 57,536</b>	<b>\$ 2,064,658</b>	<b>\$ 2,066,346</b>

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



**Besser Museum of Northeast Michigan**

Statement of Functional Expenses  
(With summarized comparative totals for the year ended June 30, 2021)

	Program Service	Supporting Services		Cost of Goods Sold	For the Year Ended June 30,	
		Management and General	Fundraising		2022	2021, Restated
Salaries and wages	\$ 149,662	\$ 47,472	\$ 14,414	\$ -	\$ 211,548	\$ 196,897
Employee benefits	21,713	9,342	2,749	-	33,804	43,683
Payroll taxes	11,819	3,749	1,138	-	16,706	15,244
Professional services	-	21,656	-	-	21,656	25,240
Contracted services	1,715	719	-	-	2,434	11,576
Advertising and promotion	19,111	-	-	-	19,111	14,960
Postage	375	1,656	-	-	2,031	1,673
Copying/Printing	2,090	3,045	-	-	5,135	3,526
Office expenses & supplies	10,292	3,430	189	-	13,911	18,737
Occupancy						
Facility expense	15,452	2,727	-	-	18,179	21,234
Utilities	34,481	6,085	-	-	40,566	39,274
Depreciation and amortization	110,689	19,062	-	-	129,751	157,382
Insurance	6,013	6,013	4,008	-	16,034	13,751
Professional development expense	145	1,688	-	-	1,833	1,535
Bank service charges	2,180	-	-	-	2,180	1,694
Uncollectible pledges expense	-	2,917	-	-	2,917	-
Cost of store inventory sold	-	-	-	9,447	9,447	14,167
Direct cost of special events	-	-	-	1,000	1,000	442
Direct grant expenses	27,460	-	-	-	27,460	28,461
Other	609	448	2,598	-	3,655	1,922
Total expenses by function	413,806	130,009	25,096	10,447	579,358	611,398
Less expenses included with revenues on the statement of activities						
Gift shop cost of goods sold	-	-	-	(9,447)	(9,447)	(14,167)
Direct cost of special events	-	-	-	(1,000)	(1,000)	(442)
Total expenses included in the expense section on the statement of activities	\$ 413,806	\$ 130,009	\$ 25,096	\$ -	\$ 568,911	\$ 596,789

## Besser Museum for Northeast Michigan

### Statement of Cash Flows

	For the Year Ended June 30,	
	2022	2021, Restated
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (1,688)	\$ (23,976)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities:		
Depreciation and amortization	129,751	157,382
Change in beneficial interests in assets held by others	117,969	(2,092)
Realized and unrealized gains on investments	5,411	(8,520)
Changes in operating assets and liabilities:		
Accounts and grants receivable, net	30,688	(51,370)
Promises to give	2,917	1,500
Inventory	(30,311)	4,930
Accounts payable	5,086	7,635
Accrued expenses and other liabilities	3,997	3,863
<b>Net Cash Provided by Operating Activities</b>	<b>263,820</b>	<b>89,352</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(297,550)	(47,134)
Purchases of investments	(3,292)	(1,933)
Proceeds from sale of investments	1,477	991
<b>Net Cash (Used in) Investing Activities</b>	<b>(299,365)</b>	<b>(48,076)</b>
<b>Net change in cash and cash equivalents</b>	<b>(35,545)</b>	<b>41,276</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>375,291</b>	<b>334,015</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 339,746</b>	<b>\$ 375,291</b>
<b>Supplemental Information</b>		
Cash paid during the year for:		
Interest	\$ -	\$ -
Unrelated business income taxes	-	-
	<b>\$ -</b>	<b>\$ -</b>

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

# Besser Museum for Northeast Michigan

## Notes to the Financial Statements

---

### Note 1. Nature of Activities

**Organization.** The Besser Museum for Northeast Michigan (the “Museum”) is a Michigan non-profit organization. The Museum is an educational institution in Northeast Michigan dedicated to providing the public with enriching cultural experiences in art, history, and science. The Museum fulfills its mission to educate the public by offering exhibits of artifacts and art, housing a full-dome planetarium and Foucault pendulum, and providing various other educational and/or historical programs at the on-site fossil park and historic village.

The Museum is supported through grants, as well as individual contributions through various fundraising events and projects.

On an ongoing basis, a few major sources provide a significant amount of annual revenue. It is always considered reasonably possible that events, projects, grantors, or contributors might be lost in the near term.

### Note 2. Summary of Significant Accounting Policies

**Basis of Accounting.** The financial statements of the Museum have been prepared utilizing the accrual basis of accounting and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, “*Not-for-Profit Entities, Presentation of Financial Statements*”.

**Basis of Presentation.** Financial statement presentation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-205 on “*Not-for-Profit Entities, Presentation of Financial Statements*”. Under the updated FASB ASC 958-205, the Museum is required to report information regarding its financial position and activities based on the existence or absence of donor or grantor-imposed restrictions. In addition, the Museum is required to present a statement of cash flows and a statement of functional expenses. Accordingly, net assets of the Museum 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. The governing board has designated, from net assets without donor restrictions, a board-designated quasi-endowment and board-designated endowment at the Community Foundation for Northeast Michigan.

***Net Assets with Donor Restrictions*** – The Museum reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is when a stipulated time restriction ends, or 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**Cash Equivalents.** The Museum considers all highly liquid investments purchased with an original maturity of one year or less, which are neither held for nor restricted by donors for long-term purposes, to be cash equivalents. Cash and highly liquid financial instruments restricted to endowments or quasi-endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

**Grants Receivable.** Grants are either considered a contribution or exchange transaction based on criteria contained in the grant award.

## Besser Museum for Northeast Michigan

### Notes to the Financial Statements

---

#### **Note 2. Summary of Significant Accounting Policies** *(continued)*

Grant awards that are contributions – Unconditional grants are reported at fair value at the date the grant is received. Conditional grants are recognized only when the conditions on which they depend are substantially met and the grant becomes unconditional. Grants that qualify as conditional contributions are recorded as invoiced to the funding sources. Revenue is recognized in the accounting period when the related allowable expenses are incurred. Amounts received in excess of expenses are included in refundable advances in the accompanying statement of financial position.

Grants awards that are exchanges – Exchange transactions are reimbursed based on a predetermined rate for services performed in accordance with the terms of the award and ASC Topic 958-606. Revenue is recognized when control of the promised goods or services are transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability.

**Promises to Give.** The Museum records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, the amortization of the discounts is included in contribution revenue in the statements of activities. The allowance for uncollectible promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. At June 30, 2022, the balance in the allowance for uncollectible pledges was \$2,917, as the remaining pledges related to the previous capital campaign were deemed uncollectible. At June 30, 2021, there was no balance in the allowance for uncollectible pledges as all promises were deemed collectible.

**Inventory.** Inventory, which consists of items from the Museum store is stated at the lower of cost or net realizable value, determined by the first-in, first-out (FIFO) method.

**Property and Equipment.** The Museum capitalizes all expenditures for property and equipment in excess of \$2,500. Property and equipment are carried at cost or, if donated, at the estimated fair market value at the date of donation. Permanent, significant exhibits are capitalized and depreciated; Maintenance is expensed as incurred.

Depreciation expense is recognized on a straight-line basis over the estimated useful lives of the assets, as follows:

Building	40 years
Building Improvements	20 years
Permanent Exhibits	20 years
Furniture and Equipment	3-10 years

**Investments.** Marketable debt and equity securities are recorded at fair value. Gains and losses on realized market activity are recognized at the date of the transaction. Variations in market value due to market fluctuations are recorded as unrealized appreciation or depreciation and included in earnings.

**Advertising.** The Museum expenses all costs associated with advertising when incurred. Advertising expense amounted to \$19,111 and \$14,960 for the years ended June 30, 2022 and 2021, respectively.

## Besser Museum for Northeast Michigan

### Notes to the Financial Statements

---

#### **Note 2. Summary of Significant Accounting Policies** *(continued)*

**Revenue and Revenue Recognition.** Effective July 1, 2020, the Museum adopted a new revenue recognition policy in accordance with Accounting Standard Codification (ASC) 606, *Revenue from Contracts with Customers*, on the modified retrospective approach. Prior to fiscal year ending June 30, 2021, the revenue recognition policy was in accordance with ASC 605, *Revenue Recognition*. The Museum determines revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, the Museum satisfies a performance obligation.

As part of the adoption of ASC 606, the Museum elected to use the following transition practical expedients: (i) completed contracts that begin and end in the same annual reporting period have not been restated; (ii) the Museum used the known transaction price for completed contracts; (iii) to exclude disclosures of transaction prices allocated to remaining performance obligations when the Museum expects to recognize such revenue for all periods prior to the date of initial application of the ASC; and (iv) the Museum has reflected the aggregate of all contract modifications that occurred prior to the date of initial application when identifying the performance obligations, determining the transaction price, and allocating the transaction price.

The adoption of ASC 606 did not have any impact on the Museum's financial statements. All of the Museum's revenue arrangements generally consist of a single performance obligation to provide services. There was no outstanding asset or liability at year-end recognized for contracts with customers. The Museum generally does not have any variable considerations, such as early payment discounts. Any contracts with variable considerations would be immaterial to the Museum's financial statements. The Museum recognizes revenue net of sales tax and other government-assessed and imposed taxes on revenue generating activities that are charged to customers.

Based on the Museum's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. Consequently, no changes were required to previously reported revenues as result of the adoption. Admissions, memberships, and gift shop sale revenue recognized on the statement of activities is considered contract revenue under ASC 606.

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

**Donated Services and In-Kind Contributions.** Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements may not reflect the value of these contributed services if they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Museum records donated professional services at the respective fair values of the services received.

**Functional Allocation of Expenses.** The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, such costs have been allocated among the various functions. Such allocations are determined by management and are allocated in one of three ways:

- By actual expense incurred, generally for program expenses and management & general expenses;
- Allocated by some reasonable consistent measure (for example occupancy expenses are allocated based on building square footage); or
- An allocation method determined by management to be reasonable.

## Besser Museum for Northeast Michigan

### Notes to the Financial Statements

---

#### **Note 2. Summary of Significant Accounting Policies** *(continued)*

**Beneficial Interest in Assets Held by the Community Foundation.** With a contribution of \$1,500, the Museum previously established an endowment fund that is perpetual in nature at the Community Foundation for Northeast Michigan (the Community Foundation). The Museum granted variance power to the Community Foundation, which allows the Community Foundation to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of the Community Foundation's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The fund is held and invested by the Community Foundation for the Museum's benefit and is reported at fair value in the statement of financial position, with distributions and changes in fair value recognized in the statement of activities. This fund is discussed further in Note 13.

**Risks and Uncertainties.** The Museum invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the balance sheet.

**Income Taxes.** The Museum is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Museum's tax-exempt purpose is subject to taxation as unrelated business income, if applicable. In addition, the Museum qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The Museum is also exempt from Michigan corporate income tax.

**Use of Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results may differ from those estimates.

**Collections.** The Museum's collections are made up of objects of historical, cultural, or scientific significance that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing its condition are performed continuously.

In accordance with the practice generally followed by museums, the value of objects in collections is excluded from the financial statements. Such collections have been acquired through purchases and contributions since the Museum's inception. Purchases of collection items are recorded as decreases in net assets without donor restrictions (an expense) in the year in which the items are acquired, or as decreases in net assets with donor restrictions if the assets used to purchase the items are restricted by donors.

Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in net assets. Proceeds from deaccessions may only be used to acquire new collection items or for the direct care of existing collections. The Museum follows ethical guidelines per the American Association of Museums for the direct care of collection items. Direct care invests in existing collections by enhancing their life, usefulness or quality and thereby ensuring they will continue to benefit the public. There were no sales of collection items in 2022 or 2021.

**Comparative Totals.** The financial statements include certain prior-year comparative total amounts. The statement of activities and the statement of functional expenses presents prior year summarized totals which do not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. In addition, there was a prior period adjustment as disclosed in Note 18. Accordingly, such amounts should be read in conjunction with the Museum's financial statements for the year ended June 30, 2021, from which the comparative total amounts were derived, in addition to Note 18.

## Besser Museum for Northeast Michigan

### Notes to the Financial Statements

#### Note 3. Cash and Cash Equivalents and Investments

The Museum's cash is on deposit with one financial institution located in the Alpena area. The balances are insured by Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2022, \$106,019 of the Museum's bank balance of \$356,019 was exposed to custodial credit risk because it exceeded FDIC insurance limits. As of June 30, 2021, \$130,003 of the Museum's bank balance of \$380,003 was exposed to the same custodial credit risk.

The following summarizes returns from the Museum's cash and investments as stated in the statement of activities for the year ended June 30, 2022:

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Interest and dividends	\$ 3,389	\$ 111	\$ 3,500
Net realized and unrealized gains/(losses)	(6,550)	(504)	(7,054)
Management fees	(731)	(27)	(758)
Totals	<u>\$ (3,892)</u>	<u>\$ (420)</u>	<u>\$ (4,312)</u>

The following summarizes returns from the Museum's cash and investments as stated in the statement of activities for the year ended June 30, 2021:

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Interest and dividends	\$ 1,785	\$ 737	\$ 2,522
Net realized and unrealized gains/(losses)	8,520	-	8,520
Management fees	(639)	(144)	(783)
Totals	<u>\$ 9,666</u>	<u>\$ 593</u>	<u>\$ 10,259</u>

#### Note 4. Board-Designated Quasi-Endowment Fund

The Board of Directors established a board-designated quasi-endowment in which the amounts held in this fund would be retained and invested; that there would be no withdrawal of the funds except upon Board approval; and that the earnings from the fund's investments be retained in the fund except upon approval of the Board. For the years ended June 30, 2022 and 2021, the Board did not appropriate any funds for expenditure nor add to the investment balance. The fair market value of the board-designated quasi-endowment funds was \$83,096 at June 30, 2022 and \$86,692 at June 30, 2021.

The investment portfolio is allocated as follows:

	June 30, 2022	June 30, 2021
Money market funds	\$ 18,250	\$ 18,078
Mutual funds	43,222	45,248
Exchange traded funds	<u>21,624</u>	<u>23,366</u>
Totals	<u>\$ 83,096</u>	<u>\$ 86,692</u>

## Besser Museum for Northeast Michigan

### Notes to the Financial Statements

#### Note 5. Property and Equipment

Property and equipment consist of the following at June 30:

	2022	2021
Land	\$ 100,000	\$ 100,000
Buildings	2,564,100	2,564,100
Building improvements	2,213,666	2,082,865
Furniture and equipment	106,852	106,852
Projects in progress	205,550	38,800
Less accumulated depreciation	(3,751,128)	(3,621,376)
	<u>\$ 1,439,040</u>	<u>\$ 1,271,241</u>

Depreciation expense amounted to \$129,751 and \$157,382 for the years ended June 30, 2022 and 2021, respectively.

Projects in progress consist of the following projects at June 30:

	2022	2021
HVAC/Chiller	\$ 193,490	\$ 7,800
New history exhibit	12,060	-
Historic Village Cabin Renovation	-	31,000
Total	<u>\$ 205,550</u>	<u>\$ 38,800</u>

#### Note 6. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following specified purposes at June 30:

	2022	2021
Capital Campaigns	\$ 25,325	\$ 150,986
Collections/Digitization Project	6,502	3,111
Green School	2,247	2,247
Historic Village	-	16,064
Chinook	23,462	7,896
	<u>\$ 57,536</u>	<u>\$ 180,304</u>



## Besser Museum for Northeast Michigan

### Notes to the Financial Statements

---

#### **Note 7. In-Kind Donations**

**Donated Services.** The Museum recognized in-kind donated services in accordance with FASB ASC 958-605-25. These standards require that only contributions that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation be recorded. The Museum received donated inventory with an estimated value of \$2,500 during the year ended June 30, 2022. During the year ended June 30, 2021, the Museum had donated advertising of \$725 and donated prizes for their special event of \$457 during the year ended June 30, 2021. The value of donated services for the years ended June 30, 2022 and 2021 are immaterial to the Museum's financial statements.

Individuals volunteer their time and perform a variety of tasks that assist the Museum. These services have not been valued in the financial statements in as much as there is no objective basis available to measure the value of such services and they do not meet the requirements of FASB ASC 958-605-25.

#### **Note 8. Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 "*Fair Value Measurements and Disclosures*" are described as follows:

*Level 1:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access.

*Level 2:* Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3:* Input to the valuation methodology is unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

## Besser Museum for Northeast Michigan

### Notes to the Financial Statements

#### Note 8. Fair Value Measurements *(continued)*

The following table sets forth by level, within the fair value hierarchy, the Museum's financial instruments measured at fair value as of June 30, 2022:

	Fair Value Measurements at Reporting Date			
	Fair Value	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Net assets without donor restrictions				
Money market funds	\$ 18,250	\$ 18,250	\$ -	\$ -
Mutual funds	43,222	-	43,222	-
Exchange traded products	21,624	-	21,624	-
Total	\$ 83,096	\$ 18,250	\$ 64,846	\$ -

The following table sets forth by level, within the fair value hierarchy, the Museum's financial instruments measured at fair value as of June 30, 2021:

	Fair Value Measurements at Reporting Date			
	Fair Value	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Net assets without donor restrictions				
Money market funds	\$ 18,078	\$ 18,078	\$ -	\$ -
Mutual funds	45,248	-	45,248	-
Exchange traded products	23,366	-	23,366	-
Total	\$ 86,692	\$ 18,078	\$ 68,614	\$ -

#### Note 9. Retirement Plan

The Museum participates in a defined contribution SIMPLE retirement plan. Employer contributions were \$3,407 and \$3,685 for the years ended June 30, 2022 and 2021, respectively.

#### Note 10. Besser Museum 50<sup>th</sup> Anniversary Capital Campaign

On October 30<sup>th</sup>, 2015, the Museum began the Besser Museum 50<sup>th</sup> Anniversary Capital Campaign ("Capital Campaign") to improve, refurbish and upgrade the Museum's planetarium and other exhibits and collections. This fund is held at the Community Foundation of Northeast Michigan and is a beneficial interest to the Museum. See Note 13 for additional information on this fund.

**Unconditional promises to give.** Unconditional promises to give relating to the Capital Campaign were \$0 and \$2,917 as of June 30, 2022 and 2021, respectively. During the year ended June 30, 2022, management recorded an allowance for uncollectible promises to give for the entire amount, as the collection now appears doubtful.

## Besser Museum for Northeast Michigan

### Notes to the Financial Statements

#### Note 11. Accounting for Uncertainty in Income Taxes

The Museum has adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. The Museum has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. The Museum's management believes tax years 2019 through 2022, following the administrative practice of taxing authorities, remain open and subject to review. Management believes its income tax filing positions will be sustained upon examination and does not anticipate any adjustments would result in a material adverse effect on its financial condition, results of operations, or cash flows. Accordingly, for all open tax years, the Museum has not recorded any reserves or related accruals for uncertain income tax positions at June 30, 2022 or 2021.

#### Note 12. Other Funds

The Community Foundation for Northeast Michigan carries certain funds which are for the benefit of the Museum. These funds are not included in the Museum's financial statements. Upon a successful grant application, the spendable portion of the fund represents the limited amount the Museum could request from the Community Foundation.

The funds held at the Community Foundation for the benefit of the Museum are as follows:

	June 30, 2022	
	Balance	Spendable
Robert & Jacquelyn Granum Besser Museum Fund	\$ 896,611	\$ 11,040
Besser Museum for NE MI Endowment Fund	624,001	63,077
Besser Museum Art Endowment Fund	13,403	4,488
The Park Museum Endowment Fund	86,663	15,744
Harry Johnson Museum Endowment Fund	97,402	2,128
Candace Smith Museum Endowment Fund	58,050	4,782
George & Edith Cook Family Designated Fund	13,032	13,032
	<u>\$ 1,789,162</u>	<u>\$ 114,291</u>

  

	June 30, 2021	
	Balance	Spendable
Besser Museum for NE MI Endowment Fund	\$ 772,975	\$ 83,563
Besser Museum Art Endowment Fund	15,589	4,006
The Park Museum Endowment Fund	118,814	29,769
Harry Johnson Museum Endowment Fund	129,597	13,056
Candace Smith Museum Endowment Fund	67,572	1,923
George & Edith Cook Family Designated Fund	13,372	13,372
	<u>\$ 1,117,919</u>	<u>\$ 145,689</u>

## Besser Museum for Northeast Michigan

### Notes to the Financial Statements

---

#### Note 12. Other Funds (continued)

The Museum is also the beneficiary of a portion of the annual transfer of various family funds and received the following amounts during the years ended June 30:

	2022	2021
Reitz Family Fund	\$ 250	\$ 250
Pfeiffenberger Fund	1,041	1,007
Steele Fund	697	700
	<u>\$ 1,988</u>	<u>\$ 1,957</u>

#### Note 13. Beneficial Interest in Assets Held by The Community Foundation of Northeast Michigan

In accordance with generally accepted accounting principles, funds transferred to the Community Foundation are reflected in the Statement of Financial Position as a beneficial interest in assets held by the Community Foundation. Following is a brief description of the key terms of these funds.

**Besser Museum 50<sup>th</sup> Anniversary Capital Campaign Fund.** In 2015, the Museum began the Besser Museum 50<sup>th</sup> Anniversary Capital Campaign Fund. This fund is a non-endowed fund held by the Community Foundation of Northeast Michigan. The Community Foundation administers investment management services for this fund. The purpose of this fund is to improve, refurbish, and upgrade the Museum's planetarium and other exhibits and collections. The capital campaign funds may be distributed at the sole discretion of and upon recommendations from the Board of Trustees of the Museum. The balance held by the Community Foundation in the capital campaign fund was \$28,242 at June 30, 2022 and \$145,791 at June 30, 2021.

**Besser Museum for Northeast Michigan Endowment Agency Fund.** In 1999, the Museum irrevocably transferred \$1,500 to the Community Foundation establishing an agency endowment fund. This is an endowment fund held by the Community Foundation. The Community Foundation administers the investment management services of this fund. The purpose of this fund is to support the Museum's operating expenses. The Board of Trustees of the Museum has discretion upon how the earnings of this fund shall be distributed. The amount of funds held by the Community Foundation in the Besser Museum for Northeast Michigan Endowment Agency Fund was \$2,684 at June 30, 2022 and \$3,104 at June 30, 2021.

#### Note 14. Concentrations

A sole contributor/grantor provided 51% and 48% of the museum's revenue for the years ended June 30, 2022 and 2021, respectively.

#### Note 15. Liquidity

The Museum receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, and central to its annual operations to be available to meet cash needs for general expenditures. The Museum manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability via a budget, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that any long-term obligations will be discharged.

## Besser Museum for Northeast Michigan

### Notes to the Financial Statements

#### Note 15. Liquidity (continued)

In addition, the Museum has certain funds for their benefit held by the Community Foundation. The Museum can request distributions from these funds; however, the Community Foundation will determine whether the funds will be distributed. These funds are discussed in Note 12 and are not included in the Museum's financial statements.

The Museum has financial assets that are available within one year of the statement of financial position date as of June 30 as follows:

	2022	2021
Cash and cash equivalents	\$ 339,746	\$ 375,291
Accounts and grants receivable, net	150,692	181,380
Promises to give, net	-	2,917
Investment - quasi-endowment	83,096	86,692
Beneficial interest in assets held by the Community Foundation	28,009	145,978
Total financial assets	<u>601,543</u>	<u>792,258</u>
Less amounts unavailable for general expenditures within one year:		
Net assets designated by the board		
Board designated endowment	(1,500)	(1,500)
Board designated quasi-endowment	(83,096)	(86,692)
Net assets with donor-imposed restrictions	<u>(57,536)</u>	<u>(180,304)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 459,411</u>	<u>\$ 523,762</u>

#### Note 16. Paycheck Protection Program

The Museum received loan proceeds of \$46,500 in March of 2021 under the second draw of the PPP loan program. The PPP established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after an 8 or 24 week period as long as the borrower maintains payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities.

The loan received under the PPP by the Museum was used for qualifying purposes and has been deemed forgiven. It is recorded as governmental coronavirus grant revenue during the fiscal year ending June 30, 2021, when it was deemed forgiven. The Museum used the entire loan proceeds for qualifying purposes prior to June 30, 2021. Forgiveness for the PPP loan was officially granted on December 21, 2021.

In addition, the Museum also applied for the Employee Retention Credit (ERC) which was also part of the CARES Act. The ERC acts as a fully refundable credit against the employer portion of Social Security taxes based on the amount of qualified wages that an eligible employer has incurred. The Museum was eligible for the credits and applied for refundable credits in the amount of \$75,203 during the fiscal year ended June 30, 2021. The credits are included as governmental coronavirus grants for the fiscal year ended June 30, 2021. For the year ended June 30, 2022, \$40,392 was received during the fiscal year and \$3,891 is included in grants receivable at June 30, 2022. For the year ended June 30, 2021, \$30,920 was received and \$44,283 is included as grants receivable at June 30, 2021.

## Besser Museum for Northeast Michigan

### Notes to the Financial Statements

#### Note 17. Commitments

As of June 20, 2022, the Museum has outstanding commitments of \$30,750 for a construction project, the HVAC Chiller installation.

#### Note 18. Prior Period Adjustments

During the fiscal year ended June 30, 2022, management became aware of an error in the financial statements for the year ended June 30, 2021. A \$31,000 initial payment for the building reconstruction/renovation of the historic village's log cabin and a \$7,800 payment for the HVAC chiller installation was erroneously recorded as a direct program expense, consequently a prior period adjustment has been recognized. Both transactions were corrected and reclassified as "Projects in Progress" as of June 30, 2021. There was no depreciation related to this adjustment as the assets were not yet completed nor placed in service at June 30, 2021.

In addition, during the year ended June 30, 2022, the Museum became aware of donated inventory that was not properly valued within the Museum's financial statements. Accounting principles require that donated inventory is recognized as a contribution of a nonfinancial asset at the estimated fair market value on the date of donation.

As a result, the Museum recognized the following prior period adjustments:

	As of and for the year ended June 30, 2021		
	Prior to restatement	Adjustment	As restated
<b>Assets</b>			
Inventory	\$ 20,936	\$ 5,401	\$ 26,337
Property and equipment, net	1,232,441	38,800	1,271,241
Total assets	2,045,850	44,201	2,090,051
<b>Expenses</b>			
Direct grant expense	59,461	(31,000)	28,461
Contracted services	19,376	(7,800)	11,576
Total expenses	635,589	(38,800)	596,789
<b>Net assets</b>			
Change in net assets	(62,776)	38,800	(23,976)
Net assets - beginning of year	2,084,921	5,401	2,090,322
Net assets - end of year	\$ 2,022,145	\$ 44,201	\$ 2,066,346

#### Note 19. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were readily available to be issued. These subsequent events do not affect the financial statements for the year ended June 30, 2022.

## Besser Museum for Northeast Michigan

### Notes to the Financial Statements

---

#### **Note 19. Subsequent Events** *(continued)*

Subsequent to year-end, the Museum has received notification of the renewal of the Besser Foundation operating grant for the calendar year 2023 in the amount of \$260,000 and was also notified of one-time grants of \$830,400 from various granting organizations for operations and special projects.

The Museum has since entered into multiple contracts with different contractors for projects around the museum. The following contracts were entered into after year end; February 14, 2023, an agreement was signed for museum gallery renovations totaling approximately \$1.3 million, the design of a new logo for the Museum for \$15,525, and completion of various exterior projects for the Museum amounting to \$174,097.