

**BESSER MUSEUM FOR  
NORTHEAST MICHIGAN**

Financial Statements For The Year  
Ended June 30, 2019

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Besser Museum For Northeast Michigan  
Alpena, Michigan

We have audited the accompanying financial statements of **Besser Museum for Northeast Michigan** (a non-profit organization) (the "Museum"), which comprise the statement of financial position as of June 30, 2019, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Besser Museum for Northeast Michigan as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Straley Lamp & Kraenzlein P.C.*

Alpena, Michigan  
February 10, 2020

# BESSER MUSEUM FOR NORTHEAST MICHIGAN

## Statement of Financial Position

June 30, 2019

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### Assets

|  |    |           |
|--|----|-----------|
| Cash and cash equivalents                            | \$ | 259,611   |
| Accounts and grants receivable                       |    | 130,010   |
| Promises to give, net                                |    | 10,417    |
| Gift shop and fundraising inventory                  |    | 21,655    |
| Prepaid expenses and other assets                    |    | 215       |
| Property and equipment, net                          |    | 1,532,844 |
| Investment - quasi-endowment                         |    | 75,953    |
| Beneficial interest - Community Foundation (Note 13) |    | 166,944   |

|              |    |                  |
|--------------|----|------------------|
| Total assets | \$ | <u>2,197,649</u> |
|--------------|----|------------------|

### Liabilities and Net Assets

#### Liabilities

|                            |    |        |
|----------------------------|----|--------|
| Accounts payable           | \$ | 16,312 |
| Accrued expenses and other |    | 10,463 |

|                   |  |               |
|-------------------|--|---------------|
| Total liabilities |  | <u>26,775</u> |
|-------------------|--|---------------|

#### Net Assets

|   |  |                  |
|---|--|------------------|
| Net assets without donor restrictions       |  |                  |
| Undesignated - general operating            |  | 341,465          |
| Board designated                            |  |                  |
| Designated for endowment                    |  | 1,500            |
| Designated as quasi-endowment               |  | 75,953           |
| Total board designated                      |  | <u>77,453</u>    |
| Net investment in property and equipment    |  | 1,532,844        |
| Total net assets without donor restrictions |  | <u>1,951,762</u> |
| Net assets with donor restrictions          |  |                  |
| Purpose restrictions                        |  | <u>219,112</u>   |

|                  |  |                  |
|------------------|--|------------------|
| Total net assets |  | <u>2,170,874</u> |
|------------------|--|------------------|

|                                  |    |                  |
|----------------------------------|----|------------------|
| Total liabilities and net assets | \$ | <u>2,197,649</u> |
|----------------------------------|----|------------------|

**BESSER MUSEUM FOR NORTHEAST MICHIGAN**

Statement of Activities

For the Year Ended June 30, 2019

|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total               |
|--|-------------------------------|----------------------------|---------------------|
| <b>Revenue, Support and Gains</b>                              |                               |                            |                     |
| Admissions   | \$ 35,180                     | \$ -                       | \$ 35,180           |
| Memberships  | 26,350                        | -                          | 26,350              |
| Gift shop sales  | 20,171                        | -                          | 20,171              |
| Less cost of goods sold  | <u>(8,828)</u>                | <u>-</u>                   | <u>(8,828)</u>      |
| Net gift shop sales  | 11,343                        |                            | 11,343              |
| Net investment return  | 3,969                         | 3,483                      | 7,452               |
| Grants   | 262,550                       | -                          | 262,550             |
| Contributions  | 14,213                        | 9,173                      | 23,386              |
| Donated professional services                                  | 3,990                         | -                          | 3,990               |
| Other revenue  | 1,325                         | -                          | 1,325               |
| Gross special events revenue                                   | 20,152                        | -                          | 20,152              |
| Less cost of events  | <u>(6,799)</u>                | <u>-</u>                   | <u>(6,799)</u>      |
| Net special events revenue                                     | 13,353                        | -                          | 13,353              |
| Designated fund distributions from<br>the Community Foundation | 28,424                        | -                          | 28,424              |
| Net assets released from restrictions                          | <u>71,411</u>                 | <u>(71,411)</u>            | <u>-</u>            |
| Total revenue, support, and gains                              | <u>472,108</u>                | <u>(58,755)</u>            | <u>413,353</u>      |
| <b>Expenses and Losses</b>                                     |                               |                            |                     |
| Program services expense                                       | 432,128                       | -                          | 432,128             |
| Management and general   | 126,524                       | -                          | 126,524             |
| Fundraising and development                                    | <u>20,647</u>                 | <u>-</u>                   | <u>20,647</u>       |
| Total expenses   | <u>579,299</u>                | <u>-</u>                   | <u>579,299</u>      |
| <b>Change in net assets</b>                                    | (107,191)                     | (58,755)                   | (165,946)           |
| <b>Fund reclassifications</b>                                  | 1,500                         | (1,500)                    | -                   |
| <b>Net assets, beginning of year</b>                           | <u>2,057,453</u>              | <u>279,367</u>             | <u>2,336,820</u>    |
| <b>Net assets, end of year</b>                                 | <u>\$ 1,951,762</u>           | <u>\$ 219,112</u>          | <u>\$ 2,170,874</u> |

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

**BESSER MUSEUM FOR NORTHEAST MICHIGAN**

Statement of Functional Expenses

For the Year Ended June 30, 2019

|  | Program Service   | Supporting Services    |                  | Cost of Goods Sold | Total             |
|--|-------------------|------------------------|------------------|--------------------|-------------------|
|  |                   | Management and General | Fundraising      |                    |                   |
| Salaries and wages   | \$ 143,557        | \$ 42,709              | \$ 13,194        | \$ -               | \$ 199,460        |
| Employee benefits  | 24,088            | 7,255                  | 2,243            | -                  | 33,586            |
| Payroll taxes  | 12,067            | 3,643                  | 1,125            | -                  | 16,835            |
| Professional services  | -                 | 27,315                 | -                | -                  | 27,315            |
| Contracted services  | 7,664             | -                      | -                | -                  | 7,664             |
| Advertising and promotion  | 17,366            | 465                    | 559              | -                  | 18,390            |
| Postage  | 474               | 1,307                  | 411              | -                  | 2,192             |
| Copying/Printing   | 2,785             | 1,981                  | -                | -                  | 4,766             |
| Office expenses & supplies   | 31,203            | 4,264                  | -                | -                  | 35,467            |
| Occupancy  |                   |                        |                  |                    |                   |
| Facility expense   | 14,296            | 2,522                  | -                | -                  | 16,818            |
| Utilities  | 30,783            | 5,433                  | -                | -                  | 36,216            |
| Depreciation and amortization  | 136,629           | 24,111                 | -                | -                  | 160,740           |
| Insurance  | 4,561             | 4,561                  | 3,042            | -                  | 12,164            |
| Professional development expense   | 4,244             | 3,829                  | -                | -                  | 8,073             |
| Bank service charges   | 2,411             | -                      | -                | -                  | 2,411             |
| Bad debt expense (collections)   | -                 | (3,365)                | -                | -                  | (3,365)           |
| Cost of store inventory sold   | -                 | -                      | -                | 8,828              | 8,828             |
| Direct cost of special events  | -                 | -                      | -                | 6,799              | 6,799             |
| Other  | -                 | 494                    | 73               | -                  | 567               |
| <b>Total expenses by function</b>  | <b>432,128</b>    | <b>126,524</b>         | <b>20,647</b>    | <b>15,627</b>      | <b>594,926</b>    |
| Less expenses included with revenues on the statement of activities                  |                   |                        |                  |                    |                   |
| Gift shop cost of goods sold   | -                 | -                      | -                | (8,828)            | (8,828)           |
| Direct cost of special events  | -                 | -                      | -                | (6,799)            | (6,799)           |
| <b>Total expenses included in the expense section on the statement of activities</b> | <b>\$ 432,128</b> | <b>\$ 126,524</b>      | <b>\$ 20,647</b> | <b>\$ -</b>        | <b>\$ 579,299</b> |

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

# BESSER MUSEUM FOR NORTHEAST MICHIGAN

## Statement of Cash Flows

For the Year Ended June 30, 2019

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### Cash Flows from Operating Activities

|   |               |
|---|---------------|
| Change in net assets  | \$ (165,946)  |
| Adjustments to reconcile change in net assets to net cash from (used for) operating activities: |               |
| Depreciation and amortization   | 160,740       |
| Change in beneficial interests in assets held by others   | 16,994        |
| Realized and unrealized gains on investments  | (1,260)       |
| Changes in operating assets and liabilities:  |               |
| Accounts and grants receivable, net   | 998           |
| Promises to give  | 28,975        |
| Allowance for uncollectible promises to give  | (3,365)       |
| Discount on pledges receivable  | (1,683)       |
| Inventory   | (2,860)       |
| Accounts payable  | 12,500        |
| Accrued expenses and other liabilities  | 7,125         |
| Net Cash Provided by Operating Activities   | <u>52,218</u> |

### Cash Flows from Investing Activities

|   |                 |
|---|-----------------|
| Purchases of property and equipment     | (21,286)        |
| Purchases of investments                | (11,228)        |
| Proceeds from sale of investments       | 9,612           |
| Net Cash (Used in) Investing Activities | <u>(22,902)</u> |

**Net change in cash and cash equivalents** 29,316

**Cash and cash equivalents, beginning of the year** 230,295

**Cash and cash equivalents, end of the year** \$ 259,611

### Supplemental Information

|                                 |             |
|---------------------------------|-------------|
| Cash paid during the year for:  |             |
| Interest                        | \$ -        |
| Unrelated business income taxes | -           |
|                                 | <u>\$ -</u> |



# BESSER MUSEUM FOR NORTHEAST MICHIGAN

## Notes to the Financial Statements

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### 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 organization 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.

In the current year, a significant amount of revenue was provided by a few major sources. 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

**Financial Statement Presentation.** The Museum’s financial statements have been prepared on an 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*”.

Under the updated FASB ASC 958, 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 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 receivable consists of a general operating grant from Besser Foundation, an unrelated philanthropic organization.

# BESSER MUSEUM FOR NORTHEAST MICHIGAN

## Notes to the Financial Statements

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**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, amortization of the discounts is included in contribution revenue in the statements of activities. The allowance for uncollectable 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 uncollectable. At June 30, 2019, there was no allowance for uncollectable accounts as all promises are deemed collectable.

**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. No depreciation is recorded against Museum exhibits. Maintenance is expensed as incurred. Depreciation expense is \$160,740 for the year ended June 30, 2019.

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   |
| 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 \$18,390 for the year ended June 30, 2019.

**Revenue and Revenue Recognition.** 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 a 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 our 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.

# BESSER MUSEUM FOR NORTHEAST MICHIGAN

## Notes to the Financial Statements

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Functional Allocation of Expenses.** The costs of providing program and other activities have been summarized on a functional basis in the statements 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
- Historical allocation method determined by management to be reasonable.

**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 (“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.

**Private Foundation Status.** Beginning July 1, 2008, the Museum had applied for termination of their private foundation status and was given an advance ruling for a 60-month period, ending June 30, 2013. The Museum timely filed a Request for Miscellaneous Determination with the IRS for termination of private foundation status under section 507(b)(1)(B). On September 12, 2014 the IRS granted the termination of private foundation status.

**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.

# BESSER MUSEUM FOR NORTHEAST MICHIGAN

## Notes to the Financial Statements

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**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. There were no sales of collection items in 2019.

**New Accounting Pronouncement.** On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit-Entities*. The update addresses the complexity and understandability of net assets classification, deficiencies in information about liquidity and availability or resources, and lack of consistency in the type of information provided about expenses and investment return. The Museum has adjusted the presentation of these statements accordingly.

### 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, 2019, \$12,816 of the Museum's bank balance of \$262,816 was exposed to custodial credit risk because it exceeded FDIC insurance limits.

The following summarizes returns from the Museum's cash and investments as stated in the statement of activities for the year ended June 30, 2019:

|  | Net assets without<br>donor restrictions | Net assets with<br>donor restrictions |
|--|--|---------------------------------------|
| Interest and dividends                     | \$ 3,294                                 | \$ 3,912                              |
| Net realized and unrealized gains/(losses) | 1,260                                    | 162                                   |
| Management fees                            | (585)                                    | (591)                                 |
| Totals                                     | <u>\$ 3,969</u>                          | <u>\$ 3,483</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 year ended June 30, 2019, 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 \$75,953 at June 30, 2019.

# BESSER MUSEUM FOR NORTHEAST MICHIGAN

## Notes to the Financial Statements

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### NOTE 4. BOARD-DESIGNATED QUASI-ENDOWMENT FUND *(continued)*

The investment portfolio is allocated as follows:

|                       |                  |
|-----------------------|------------------|
| Money market funds    | \$ 17,991        |
| Mutual funds          | 39,346           |
| Exchange traded funds | <u>18,616</u>    |
| Totals                | <u>\$ 75,953</u> |

### NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2019:

|                               |                     |
|-------------------------------|---------------------|
| Land                          | \$ 100,000          |
| Buildings                     | 2,564,100           |
| Building improvements         | 2,075,306           |
| Furniture and equipment       | 98,518              |
| Less accumulated depreciation | <u>(3,305,080)</u>  |
|                               | <u>\$ 1,532,844</u> |

Depreciation expense amounted to \$160,740 during the year ended June 30, 2019.

### NOTE 6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following specified purposes at June 30, 2019:

|                    |                  |
|--------------------|------------------|
| Capital Campaigns  | \$ 179,577       |
| Collections        | 8,284            |
| Education/Outreach | 8,960            |
| Exhibits           | 3,672            |
| Green School       | 2,247            |
| Fine arts          | 596              |
| McCabin            | 150              |
| Facility Cleaning  | 7,340            |
| Kat V Restoration  | <u>8,286</u>     |
|                    | <u>\$219,112</u> |

# BESSER MUSEUM FOR NORTHEAST MICHIGAN

## Notes to the Financial Statements

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### 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 non-financial 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 had donated services of \$3,990 for accounting and auditing services in the year ended June 30, 2019.

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, 2019:

|                                       | Fair Value Measurements at Reporting Date |                                   |   |   |
|---------------------------------------|---|-----------------------------------|---|---|
|                                       | Fair Value                                | Quoted Market Prices<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) |
| Net assets without donor restrictions |   |                                   |   |   |
| Money market funds                    | \$ 17,991                                 | \$ 17,991                         | \$ -  | \$ -  |
| Mutual funds                          | 39,346                                    | -                                 | 39,346  | -   |
| Exchange traded products              | 18,616                                    | -                                 | 18,616  | -   |
| Total                                 | <u>\$ 75,953</u>                          | <u>\$ 17,991</u>                  | <u>\$ 57,962</u>                                    | <u>\$ -</u>                                     |

### NOTE 9. RETIREMENT PLAN

The Museum participates in a defined contribution SIMPLE retirement plan. Employer contributions were \$2,681 for the year ended June 30, 2019.

### 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 12 for additional information on this fund.

**Unconditional promises to give.** Unconditional promises to give relating to the Capital Campaign were \$10,417 as of June 30, 2019. There was no allowance recorded for uncollectible promises to give. The amount due in less than one year is \$6,000 and amount due in one to five years is \$4,417 as of June 30, 2019.

### 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 2016 through 2019, 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, 2019.

# BESSER MUSEUM FOR NORTHEAST MICHIGAN

## Notes to the Financial Statements

### 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:

|  | Balance<br>June 30, 2019 | Spendable<br>June 30, 2019 |
|--|--------------------------|----------------------------|
| Besser Museum for NE MI Endowment Fund     | \$ 626,828               | \$ 54,605                  |
| Besser Museum Art Endowment Fund           | 12,298                   | 3,104                      |
| The Park Museum Endowment Fund             | 93,736                   | 22,802                     |
| Harry Johnson Museum Endowment Fund        | 105,556                  | 6,510                      |
| Candace Smith Museum Endowment Fund        | 58,930                   | 3,122                      |
| George & Edith Cook Family Designated Fund | 27,787                   | 27,787                     |
|  | <u>\$ 925,135</u>        | <u>\$ 117,930</u>          |

The Museum is also the beneficiary of a portion of the annual transfer of various family funds and received the following amounts during the year ended June 30, 2019:

|                     |                 |
|---------------------|-----------------|
| Reitz Family Fund   | \$ 250          |
| Pfeiffenberger Fund | 867             |
| Steele Fund         | <u>697</u>      |
|                     | <u>\$ 1,814</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. At June 30, 2019, the balance held by the Community Foundation in the capital campaign fund was \$156,951.



# BESSER MUSEUM FOR NORTHEAST MICHIGAN

## Notes to the Financial Statements

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### **NOTE 13. BENEFICIAL INTEREST IN ASSETS HELD BY THE COMMUNITY FOUNDATION OF NORTHEAST MICHIGAN** *(continued)*

**Besser Museum Special Project Fund.** In 2016, the Museum began the Besser Museum Special Project Fund (“Special Project Fund”). This fund is a non-endowed fund held by the Community Foundation. The Community Foundation administers investment management services for the Special Project Fund. The purpose of this fund is to enhance (restore, expand, interpret) current exhibits and create future exhibits and outreach programs pertaining to art, history and science. The Community Foundation’s Board of Trustees will have the final responsibility for approval of disbursements from the Special Project Fund; however, the Museum’s Board of Trustees may make recommendations on the purpose of distributions. The amount of funds held by the Community Foundation in the Special Project Fund totaled \$7,589 at June 30, 2019.

**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 \$2,404 at year June 30, 2019.

### **NOTE 14. CONCENTRATIONS**

The Museum received approximately 61% of revenue from contributions and grants from a sole contributor for the year ended June 30, 2019.

### **NOTE 15. LEASING ARRANGEMENTS**

In 2017, the Museum entered into a 60-month lease agreement for a copier. Expenses for this lease were \$1,152 for the year ended June 30, 2019.

### **NOTE 16. 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.

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.

# BESSER MUSEUM FOR NORTHEAST MICHIGAN

## Notes to the Financial Statements

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### NOTE 16. LIQUIDITY *(continued)*

As of June 30, 2019, the Museum had the following financial assets available:

|  |                   |
|--|-------------------|
| Cash and cash equivalents  | \$ 259,611        |
| Accounts and grants receivable, net  | 130,010           |
| Promises to give, net  | 10,417            |
| Investment - quasi-endowment   | 75,953            |
| Beneficial interest in assets held by the Community Foundation                         | 166,944           |
| Total financial assets   | <u>642,935</u>    |
| Less amounts unavailable for general expenditures within one year:                     |                   |
| Net assets designated by the board   |                   |
| Board designated endowment   | (1,500)           |
| Board designated quasi-endowment   | (75,953)          |
| Net assets with donor-imposed restrictions   | <u>(219,112)</u>  |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 346,370</u> |

### NOTE 17. 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.

Subsequent to year-end, the Museum has received notification of the renewal of the Besser Foundation operating grant for the calendar year 2020 and was also notified of one-time grants of \$28,500 from various granting organizations. In addition, the Museum was notified of a \$50,000 donation to the Community Foundation that benefits the Museum's Native American exhibit. These subsequent events do not affect the financial statements for the year ended June 30, 2019.

## AUDIT COMMUNICATIONS

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, 2019 and have issued our report thereon dated February 10, 2020. 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 25, 2019. 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 2018. 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.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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. We have provided a list of proposed audit adjustments to management which have been approved by management and are reflected in the 2019 audited financial statements.

### **Disagreements with Management**

For purposes of this letter, a disagreement with management is 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 Representation**

We have requested certain representations from management that are included in the management representation letter dated February 10, 2020.

### **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 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, 2022.

#### *FASB Accounting Standards Update for Contributions*

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU will be aimed at clarifying and improving existing guidance to assist entities in (1) evaluating transfers of assets as either exchange transactions or contributions, and (2) distinguishing contributions as either conditional or unconditional. The new guidance will be effective for the Museum's fiscal year ending June 30, 2021.

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.*

February 10, 2020