

Financial Statements
Peabody Essex Museum, Inc.
December 31, 2010 and 2009



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Tofias New England Division

PEABODY ESSEX MUSEUM, INC.

Financial Statements

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Independent Auditors' Report

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

We have audited the accompanying statements of financial position of Peabody Essex Museum, Inc. (the "Museum") as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peabody Essex Museum, Inc. at December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

May 26, 2011
Cambridge, Massachusetts

Peabody Essex Museum, Inc.
Statements of Financial Position
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,699,580	\$ 1,577,234
Accounts receivable, net	576,864	20,512
Grants receivable	595,456	416,824
Pledges receivable, net	38,687,310	3,652,096
Inventories, at cost	672,150	688,446
Prepaid expenses	806,748	852,356
Total current assets	<u>43,038,108</u>	<u>7,207,468</u>
Noncurrent assets:		
Pledges receivable, net - noncurrent	3,916,285	6,044,202
Investments, at market	241,695,884	187,423,764
Funds held by others	4,125,854	3,817,905
Assets of split interest agreements, net	376,437	350,788
Mortgages receivable - related party	197,316	197,316
Bond issuance costs, net	240,873	260,312
Bond principal escrow	409,036	385,539
Land, buildings and equipment, net	78,283,562	82,213,423
Total assets	<u>\$ 372,283,355</u>	<u>\$ 287,900,717</u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 947,763	\$ 905,683
Accrued expenses	539,869	603,724
Deferred revenue	457,082	331,829
Current portion bonds payable	975,000	925,000
Environmental remediation liability	325,000	328,713
Current portion of lease liability	59,463	80,859
Total current liabilities	<u>3,304,177</u>	<u>3,175,808</u>
Noncurrent liabilities:		
Bonds payable	30,310,000	31,285,000
Interest rate swap, mark to market	3,064,952	2,607,287
Long-term lease liability	73,999	91,808
Total liabilities	<u>36,753,128</u>	<u>37,159,903</u>
Net assets:		
Unrestricted	86,917,566	88,922,295
Temporarily restricted	75,580,279	65,373,014
Permanently restricted	173,032,382	96,445,505
Total net assets	<u>335,530,227</u>	<u>250,740,814</u>
Total liabilities and net assets	<u>\$ 372,283,355</u>	<u>\$ 287,900,717</u>

Peabody Essex Museum, Inc.
Statements of Activities
Year Ended December 31, 2010
(with summarized financial information
for the year ended December 31, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2010	2009
Operating support and revenue:					
Contributions	\$ 1,912,176	\$ 6,361,476	\$ 75,803,907	\$ 84,077,559	\$ 22,292,108
Grants	2,096,817	-	450,000	2,546,817	1,588,115
Spending rate transfer appropriated for operations	5,132,259	-	-	5,132,259	4,809,118
Enterprise and other revenues	3,992,258	2,948	-	3,995,206	2,315,653
Admissions	1,338,574	-	-	1,338,574	951,583
Memberships	706,764	-	-	706,764	645,298
Satisfaction of program restrictions	6,802,201	(6,802,201)	-	-	-
Total operating support and revenue	21,981,049	(437,777)	76,253,907	97,797,179	32,601,875
Expenses:					
Program services:					
Exhibitions and publications	4,109,378	-	-	4,109,378	2,355,939
Curatorial and collections	2,239,851	-	-	2,239,851	2,214,481
Educational programs	1,590,514	-	-	1,590,514	1,982,177
Enterprises	1,597,706	-	-	1,597,706	1,307,945
Public information	1,883,763	-	-	1,883,763	1,816,727
Membership and guest services	624,416	-	-	624,416	612,799
Media services	588,635	-	-	588,635	605,625
Facilities and security	2,746,291	-	-	2,746,291	2,869,049
Total program services	15,380,554	-	-	15,380,554	13,764,742
Supporting services:					
Development	2,235,911	-	-	2,235,911	1,918,033
Administrative	3,502,371	-	-	3,502,371	3,249,512
Facilities and security	834,976	-	-	834,976	872,299
Total supporting services	6,573,258	-	-	6,573,258	6,039,844
Total program and supporting services	21,953,812	-	-	21,953,812	19,804,586
Changes in net assets from operations before other operating activities	27,237	(437,777)	76,253,907	75,843,367	12,797,289
Other operating activities:					
Other revenues	380,187	-	-	380,187	184,006
Bequests	50,074	-	-	50,074	-
Other (expenses)	(487,142)	-	-	(487,142)	(646,218)
Changes in net assets from operations	(29,644)	(437,777)	76,253,907	75,786,486	12,335,077
Nonoperating activities:					
Investment income and gains net of amounts appropriated	4,642,252	10,962,169	114,547	15,718,968	23,097,983
Change in value of split interest agreements and funds held by others	-	150,846	218,423	369,269	533,835
Debt service costs	(1,594,085)	-	-	(1,594,085)	(1,483,894)
Unrealized gain (loss) under interest rate swap	(457,665)	-	-	(457,665)	719,515
Environmental remediation cost	(419,494)	-	-	(419,494)	-
Depreciation and amortization	(4,208,210)	-	-	(4,208,210)	(4,263,580)
(Loss) on disposal of fixed assets	-	-	-	-	(6,713)
Plant related satisfaction of program restrictions	90,379	(90,379)	-	-	-
Sale of collection items	-	1,400	-	1,400	-
Collection items purchased	(407,256)	-	-	(407,256)	(1,648,174)
Satisfaction of program restrictions - collection items	378,994	(378,994)	-	-	-
Change in net assets from nonoperating activities	(1,975,085)	10,645,042	332,970	9,002,927	16,948,972
Change in net assets	(2,004,729)	10,207,265	76,586,877	84,789,413	29,284,049
Net assets at beginning of year	88,922,295	65,373,014	96,445,505	250,740,814	221,456,765
Net assets at end of year	\$ 86,917,566	\$ 75,580,279	\$ 173,032,382	\$ 335,530,227	\$ 250,740,814

See accompanying notes to the financial statements.

Peabody Essex Museum, Inc.
Statements of Activities
Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2009
Operating support and revenue:				
Contributions	\$ 1,695,059	\$ 5,998,061	\$ 14,598,988	\$ 22,292,108
Grants	1,588,115	-	-	1,588,115
Spending rate transfer appropriated for operations	4,809,118	-	-	4,809,118
Enterprise and other revenues	2,313,692	1,961	-	2,315,653
Admissions	951,583	-	-	951,583
Memberships	645,298	-	-	645,298
Satisfaction of program restrictions	7,843,792	(7,843,792)	-	-
Total operating support and revenue	<u>19,846,657</u>	<u>(1,843,770)</u>	<u>14,598,988</u>	<u>32,601,875</u>
Expenses:				
Program services:				
Exhibitions and publications	2,355,939	-	-	2,355,939
Curatorial and collections	2,214,481	-	-	2,214,481
Educational programs	1,982,177	-	-	1,982,177
Enterprises	1,307,945	-	-	1,307,945
Public information	1,816,727	-	-	1,816,727
Membership and guest services	612,799	-	-	612,799
Media services	605,625	-	-	605,625
Facilities and security	2,869,049	-	-	2,869,049
Total program services	<u>13,764,742</u>	<u>-</u>	<u>-</u>	<u>13,764,742</u>
Supporting services:				
Development	1,918,033	-	-	1,918,033
Administrative	3,249,512	-	-	3,249,512
Facilities and security	872,299	-	-	872,299
Total supporting services	<u>6,039,844</u>	<u>-</u>	<u>-</u>	<u>6,039,844</u>
Total program and supporting services	<u>19,804,586</u>	<u>-</u>	<u>-</u>	<u>19,804,586</u>
Changes in net assets from operations before other operating activities	42,071	(1,843,770)	14,598,988	12,797,289
Other operating activities:				
Contributions and revenues	184,006	-	-	184,006
Other (expenses)	(646,218)	-	-	(646,218)
Changes in net assets from operations	<u>(420,141)</u>	<u>(1,843,770)</u>	<u>14,598,988</u>	<u>12,335,077</u>
Nonoperating activities:				
Investment income and gains net of amounts appropriated	8,950,882	13,936,209	210,892	23,097,983
Change in value of split interest agreements and funds held by others	-	181,883	351,952	533,835
Debt service costs	(1,483,894)	-	-	(1,483,894)
Unrealized gain under interest rate swap	719,515	-	-	719,515
Depreciation and amortization	(4,263,580)	-	-	(4,263,580)
(Loss) on disposal of fixed assets	(6,713)	-	-	(6,713)
Plant related satisfaction of program restrictions	172,623	(172,623)	-	-
Collection items purchased	(1,648,174)	-	-	(1,648,174)
Satisfaction of program restrictions - collection items	1,599,407	(1,599,407)	-	-
Change in net assets from nonoperating activities	<u>4,040,066</u>	<u>12,346,062</u>	<u>562,844</u>	<u>16,948,972</u>
Change in net assets	3,619,925	10,502,292	15,161,832	29,284,049
Net assets at beginning of year	<u>85,302,370</u>	<u>54,870,722</u>	<u>81,283,673</u>	<u>221,456,765</u>
Net assets at end of year	<u>\$ 88,922,295</u>	<u>\$ 65,373,014</u>	<u>\$ 96,445,505</u>	<u>\$ 250,740,814</u>

See accompanying notes to the financial statements.

Peabody Essex Museum, Inc.
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 84,789,413	\$ 29,284,049
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,208,210	4,263,580
Loss on disposal of fixed assets	-	6,713
Contributions restricted for long-term investments and capital additions	(42,366,250)	(12,234,047)
Net unrealized and realized gains on long-term investments	(18,244,694)	(24,460,398)
Interest rate swap, mark to market	457,665	(719,515)
Environmental remediation cost	(3,713)	(920,205)
Outlays for collections	407,256	1,648,174
(Increase) decrease in assets:		
Pledges receivable	(32,907,297)	(549,719)
Accounts receivable	(556,352)	30,856
Grants receivable	(178,632)	(278,428)
Inventories	16,296	(41,519)
Prepaid expenses	45,608	(437,053)
Increase (decrease) in liabilities:		
Accounts payable	42,080	132,376
Accrued expenses	(63,855)	(22,748)
Deferred revenue	125,253	162,071
	<u>(4,229,012)</u>	<u>(4,135,813)</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of investments	(81,141,772)	(58,258,633)
Proceeds from sales of investments	45,114,346	53,537,747
Additions to land, building, equipment and construction in progress	(202,654)	(288,262)
Proceeds from sales of fixed assets	-	1,000
Outlays for collections	(407,256)	(1,648,174)
(Additions to) distributions from split interest agreements	19,005	(17,495)
Change in value of split interest agreements and perpetual trusts	(352,603)	(527,077)
	<u>(36,970,934)</u>	<u>(7,200,894)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Payments on bonds payable	(925,000)	(900,000)
Payments to bond principal escrow	(23,497)	(10,539)
Contributions restricted for long-term investments and capital additions	42,366,250	12,234,047
Payments of capital lease obligations	(95,461)	(87,495)
	<u>41,322,292</u>	<u>11,236,013</u>
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	122,346	(100,694)
Cash and cash equivalents at beginning of year	<u>1,577,234</u>	<u>1,677,928</u>
Cash and cash equivalents at end of year	<u>\$ 1,699,580</u>	<u>\$ 1,577,234</u>
Supplemental disclosure of noncash activities:		
Capital leases used to finance equipment	\$ 56,256	\$ 25,972

See accompanying notes to the financial statements.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Nature of Operations

The Peabody Essex Museum, Inc. (the "Museum") was formed on July 1, 1992 through a merger of the former Peabody Museum of Salem and the Essex Institute. The Museum presents outstanding works of artistic and cultural creativity from New England and around the world. The Museum's collections are among the finest of their kind, showcasing an unrivaled spectrum of American art and architecture (including four national historic landmark buildings), American decorative art, maritime art and culture, and Native American art, as well as Asian, Asian export, African, oceanic, photography and contemporary art collections. In addition to its vast collections, the Museum develops and offers a variety of special exhibitions and educational programs and works with the world's finest museums to bring traveling exhibitions to audiences in the greater Boston area and beyond. The Museum campus features numerous parks and gardens and 22 historic properties, including Yin Yu Tang, a 200-year-old house that is the only example of Chinese domestic architecture on display outside of China. The Museum's Phillips Library is one of the oldest and largest research libraries in New England.

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

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis and in accordance with the reporting principles of not-for-profit accounting.

Unrestricted Net Assets

Unrestricted net assets are not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions or law. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

Temporarily Restricted Net Assets

Temporarily restricted net assets carry specific donor-imposed restrictions on the expenditure or other use of contributed funds or limitations imposed by law. Also included in temporarily restricted net assets is accumulated net appreciation which has not yet been appropriated for expenditure by the Board. Temporary restrictions may expire either because of the passage of time or because certain actions are taken by the Museum which fulfill the restriction. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished or the stipulated time period has elapsed, are reported as satisfaction of program restrictions in the statement of activities.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained in perpetuity by the Museum. Generally, the donors of these assets permit the Museum to use all or part of the income earned and capital appreciation on related investments for general or specific purposes.

Cash and Cash Equivalents

All highly liquid debt instruments with a maturity of three months or less when purchased are classified as cash equivalents. Cash and cash equivalents include repurchase agreements which are typically issued on an overnight basis. Cash and cash equivalents held by investment managers are considered part of investments.

Investments

The Museum reports investments at fair market value. Fair value is determined as more fully described under fair value of financial instruments below. The Museum's management is responsible for the fair measurement of investments reported in the financial statements and believes that the reported values are reasonable.

Fair Value Measurements

The Museum reports required types of financial instruments in accordance with fair value accounting standards. The Museum's investments are recorded on this basis. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, the Museum reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value standards also require the Museum to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value ("NAV") practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on a stock exchange.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Fair Value Measurements (Continued)

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Level 2 also includes practical expedient investments with notice periods for redemption of 90 days or less.

Level 3 - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 also includes practical expedient investments with notice periods for redemption of more than 90 days.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

For more information on the fair value of the Museum's financial instruments, see Note 4 - Fair Values of Financial Instruments.

The Museum believes that the carrying amount of its nonmarketable investments is a reasonable estimate of fair value as of December 31, 2010 and 2009. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed; such differences could be material. The Museum may have exposure to derivative financial instruments through its investments in limited liability funds. Management believes that the risk associated with derivatives is not material to the Museum at December 31, 2010 and 2009.

Pledges and Accounts Receivable, Net

Pledges and accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Management estimates the allowance for doubtful accounts based on history of collections and knowledge acquired about specific facts relating to outstanding items. Adjustments to the allowance are charged to bad debt expense. Uncollectible accounts are written off against the allowance. An account is considered uncollectible when all efforts to collect the account have been exhausted.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Inventories

Inventories, principally retail merchandise, are stated at the lower of cost or market, with cost calculated using the first-in, first-out (FIFO) method, and market based upon net realizable value.

Funds Held by Others

Funds held by others consists of the Museum's share of assets held in trust in perpetuity for which the Museum is the beneficiary of annual distributions of income. The change in market value of the Museum's proportional share is reported in nonoperating activity.

Land, Building and Equipment

Buildings, capital improvements, period house renovations and equipment are stated at cost less accumulated depreciation computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	30 to 50 years
Capital improvements	5 to 20 years
Equipment	3 to 10 years
Period house renovations	5 to 30 years

Betterments which materially add to the value of the related assets or materially extend the useful life of the assets are capitalized. Equipment and furnishings of relatively small dollar value are expensed as incurred. When equipment is retired, its cost and the related accumulated depreciation are eliminated from the respective accounts. Gains or losses arising from dispositions are charged to unrestricted net assets.

Interest Rate Swaps

The Museum entered into an interest rate swap agreement only to achieve specific objectives consistent with its overall financial policy. The Museum may use interest rate swap agreements to actively manage interest, tax basis and other risks and to otherwise produce results that are not available in the cash market. The Museum does not use interest rate exchange financial products that create extraordinary leverage or financial risk, lack adequate liquidity to terminate at market, provide insufficient price transparency to allow reasonable valuation or otherwise for speculative purposes.

The Museum accounts for its interest rate swaps in accordance with the standards for derivative instruments and hedging activities. The guidance requires organizations to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. The Museum reports its interest rate swaps at fair value. Fair value is determined in accordance with the valuation policies described in this section. Annually, the Museum recognizes unrealized gain or loss on the estimated fair values of its interest rate swaps and expense or revenue for net settlement payments made to or received from counterparties to the agreements as nonoperating activities in its statements of activities. If held to maturity, the net gain or loss over the terms of the instruments will equal zero. As of December 31, 2010, the Museum intends to hold the contracts to maturity.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Deferred Revenues

Deposits for function rentals and certain other items are deferred and are recorded as unrestricted revenues in the year in which the services are provided.

Endowment Investment and Spending

State law allows the Board of Trustees to appropriate a percentage of net appreciation as is prudent considering the Museum's long- and short-term needs, present and anticipated financial requirements and expected total return on its investments, price level trends and general economic conditions. The Museum's endowment spending policy is computed based on the average market value for the previous 12 quarters, through September 30 of the prior year. Board designated funds that do not function as endowment are excluded from the calculation. The percentage spent was 5% for the years ended December 31, 2010 and 2009.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted are \$0 and \$257,326 as of December 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

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

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

Operating Activities

Operating activities represent revenues by source and expenses by major function. Its purpose is to present revenues and expenses related solely to the budgeted operating activities of the Museum. Other operating activities reflect transactions that are typically nonrecurring and are not customarily planned for in the annual budgeting process. Nonoperating activities include investment results net of the spending policy, debt service costs, changes in the valuation of the swap, changes in the value of split-interest agreements and funds held by others, depreciation, collection items purchased as well as certain other items of income and expense.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Collections and Works of Art

The collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Recognition of Contributions and Grants

Contributions and grants, including unconditional promises to give, are recorded as revenue at fair value when verifiably committed. Government grants are generally recognized as revenue as costs are recognized associated with the grant. Conditional contributions and grants and intentions to give are recorded as revenue when the conditions have been met. Contributions and grants are reflected as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions. Amounts received with donor-imposed restrictions that are recorded as temporarily restricted revenues are reclassified to unrestricted net assets when the time or purpose restriction has been satisfied.

Recognition of Other Support and Revenues

Enterprise and other revenues are recorded upon sale or completion of the service depending upon the activity. Admissions are generally recorded as revenue upon sale. Memberships are recorded as revenue upon receipt.

Contributed Services and Gifts In-Kind

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

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. Significant management estimates in the financial statements include the allowance for doubtful accounts and pledges receivable, fair value of alternative investments, useful lives of depreciable assets, liability for environmental remediation costs, and valuation of interest rate swap agreements, fair value disclosures for certain financial instruments reported at cost, and satisfaction of program restrictions for the release of restricted net assets.

Environmental Remediation Liability

An environmental remediation liability is a legally binding requirement to remediate the migration of heating oil on museum property, the timing and cost of which, although not known, may be estimated. The Museum records liabilities for the present value of these costs in its statements of financial position.

Concentrations

The Museum maintains its cash and cash equivalents at various financial institutions in accounts which, at times, exceed federally insured limits. The Museum monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Bond Issuance Costs

Bond issuance costs represent expenses incurred in connection with the issuance of the Museum's bonds. Such costs are amortized using the straight-line method over the life of the associated bond issue.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising costs for the years ended December 31, 2010 and 2009 were \$625,533 and \$523,974, respectively.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

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

Uncertain Tax Positions

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

The Museum has identified its status as a tax exempt entity as its only significant position and has determined that such position does not result in an uncertainty requiring recognition. The Museum is not currently under examination by any taxing jurisdiction. Its federal and state income tax returns are generally open for examination for the three years after the date of filing of the related return.

Subsequent Events

The Museum has evaluated subsequent events through May 26, 2011, the date the financial statements were authorized to be issued.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to conform with the current year presentation.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 2 - Pledges Receivable, Net

Pledges expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows utilizing a discount rate.

Pledges receivable as of December 31, 2010 and 2009 are expected to be realized in the following time frame:

	<i>2010</i>	<i>2009</i>
Within one year	\$ 38,700,311	\$ 3,692,096
One to five years	3,770,205	6,097,637
More than five years	<u>754,815</u>	<u>747,315</u>
Pledges receivable	43,225,331	10,537,048
Less: Present value discount	(586,555)	(800,750)
Less: Allowance for uncollectible pledges	<u>(35,181)</u>	<u>(40,000)</u>
	<u>\$ 42,603,595</u>	<u>\$ 9,696,298</u>

During 2010, the Museum recognized significant endowment pledges in the amount of \$75,125,000. Of this total, \$40,002,500 was collected prior to the end of 2010, and \$35,000,000 was collected during the first quarter of 2011.

During 2009, the Museum recognized a significant endowment contribution of \$10,000,000 which was a component of the \$65,000,000 conditional endowment challenge grant awarded in 2006. To date, the Museum has received \$30,000,000 from the conditional endowment challenge grant.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 3 - Investments

The Museum's investments are summarized as follows at December 31:

	<i>2010</i>	<i>2009</i>
Cash equivalents	\$ 54,541,696	\$ 27,615,719
Domestic equities and funds	24,422,085	21,159,838
International equities and funds	23,557,417	12,768,109
Global asset allocation strategies	50,864,321	47,067,412
Private company equity	28,666,012	24,274,732
Fixed income and funds	24,109,061	23,405,959
Multi-strategy hedge fund-of-funds	10,629,030	9,685,131
Absolute return hedge funds	12,751,449	12,079,841
Real asset commingled trust	7,462,447	3,661,683
Real estate limited partnership	3,311,337	4,208,302
Private equity	1,381,029	1,497,038
	<hr/>	<hr/>
Investments, at market	\$ 241,695,884	\$ 187,423,764

Investment returns are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift or state law impose restrictions on the current use of the income or net gains; and
- as increases in unrestricted net assets in all other cases.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 3 - Investments (Continued)

Investment return consisted of the following for the years ended December 31, 2010 and 2009:

	2010	2009
Investment return:		
Interest and dividends income	\$ 3,078,481	\$ 3,895,977
Net realized gains (losses)	(1,470,855)	(5,546,603)
Net unrealized gains (losses)	19,715,548	30,007,003
Less investment fees	<u>(471,947)</u>	<u>(449,276)</u>
Net return	20,851,227	27,907,101
Total return appropriated to support operations	<u>(5,132,259)</u>	<u>(4,809,118)</u>
Investment return, net of amounts appropriated to support operations	<u>\$ 15,718,968</u>	<u>\$ 23,097,983</u>

Funds Held by Others

The Museum is the beneficiary of four trusts held by others. The Museum records contribution revenue and the value of the assets at the time of the gift. The fair value of these trusts is \$4,100,046 and \$3,797,059 at December 31, 2010 and 2009, respectively. Also included in funds held by others is a life insurance policy with a value of \$25,808 and \$20,846 at December 31, 2010 and 2009, respectively. Annual distributions from the trusts of \$111,081 and \$108,416 for the years ended December 31, 2010 and 2009, respectively, are reported as other income in the appropriate net assets category depending on the nature of the donor's restrictions on distributions. Adjustments to the amounts reported as assets are recognized as a change in value of the funds held by others in the statement of activities.

Split-Interest Agreements

Assets of split-interest agreements are recorded at fair value, net of the present value of the liability for income payable to the donor or the donor's designee, and in the appropriate net asset category based on donor stipulation. Some of the assets associated with these agreements are commingled with certain of the Museum's investment assets and thus share ratably in the returns of the Museum's invested assets. Related contributions are recognized as contribution revenue equal to the present value of future benefits less the liability for income payable to the donor or the donor's designee. The liability for income payable under split-interest agreements for which the Museum is trustee was \$139,784 and \$146,042 for the years ended December 31, 2010 and 2009, respectively.

During the term of these agreements, changes in the value of split-interest agreements are recognized in the statement of activities based on accretion of the discounted amount of the contribution, the expected future benefits to be received by the Museum, changes in the fair value of underlying investments and the expected future payment to other beneficiaries, based on changes in life expectancy and other actuarial assumptions. Discount rates ranging from 3.40% to 6.55% were used in these calculations. The discount rates were equivalent to treasury yields of similar maturity at the time the Museum entered into the arrangement.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 4 - Fair Values of Financial Instruments

The valuation of the Museum's financial instruments using the fair value hierarchy consisted of the following at December 31:

	<i>2010</i>			
	<i>Total Fair Value</i>	<i>Fair Value Level 1</i>	<i>Fair Value Level 2</i>	<i>Fair Value Level 3</i>
Cash equivalents	\$ 54,541,696	\$ 54,541,696	\$ -	\$ -
Domestic equities and funds	24,422,085	24,422,085	-	-
International equities and funds	23,557,417	5,699,703	17,857,714	-
Global asset allocation strategies	50,864,321	30,936,617	19,927,704	-
Private company equity	28,666,012	-	28,666,012	-
Fixed income and funds	24,109,061	20,466,071	3,642,990	-
Multi-strategy hedge fund-of-funds	10,629,030	-	-	10,629,030
Absolute return hedge funds	12,751,449	-	6,568,031	6,183,418
Real asset commingled trust	7,462,447	-	7,462,447	-
Real estate limited partnership	3,311,337	-	-	3,311,337
Private equity	<u>1,381,029</u>	<u>-</u>	<u>-</u>	<u>1,381,029</u>
 Total investments	 <u>\$ 241,695,884</u>	 <u>\$ 136,066,172</u>	 <u>\$ 84,124,898</u>	 <u>\$ 21,504,814</u>
 Funds held by others	 <u>\$ 4,125,854</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 4,125,854</u>
 Assets of split-interest agreements, net	 <u>\$ 376,437</u>	 <u>\$ 376,437</u>	 <u>\$ -</u>	 <u>\$ -</u>
 Interest rate swap	 <u>\$ (3,064,952)</u>	 <u>\$ -</u>	 <u>\$ (3,064,952)</u>	 <u>\$ -</u>

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 4 - Fair Values of Financial Instruments (Continued)

	2009			
	<i>Total Fair Value</i>	<i>Fair Value Level 1</i>	<i>Fair Value Level 2</i>	<i>Fair Value Level 3</i>
Cash equivalents	\$ 27,615,719	\$ 27,615,719	\$ -	\$ -
Domestic equities and funds	21,159,838	21,159,838	-	-
International equities and funds	12,768,109	-	12,768,109	-
Global asset allocation strategies	47,067,412	29,357,270	17,710,142	-
Private company equity	24,274,732	-	24,274,732	-
Fixed income and funds	23,405,959	20,242,059	3,163,900	-
Multi-strategy hedge fund-of-funds	9,685,131	-	-	9,685,131
Absolute return hedge funds	12,079,841	-	591,889	11,487,952
Real asset commingled trust	3,661,683	-	3,661,683	-
Real estate limited partnership	4,208,302	-	-	4,208,302
Private equity	1,497,038	-	-	1,497,038
Total investments	\$ 187,423,764	\$ 98,374,886	\$ 62,170,455	\$ 26,878,423
Funds held by others	\$ 3,817,905	\$ -	\$ -	\$ 3,817,905
Assets of split-interest agreements, net	\$ 350,788	\$ 350,788	\$ -	\$ -
Interest rate swap	\$ (2,607,287)	\$ -	\$ (2,607,287)	\$ -

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 4 - Fair Values of Financial Instruments (Continued)

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

	<u>Hedge Funds</u>		<i>Real Estate</i>	<i>Private</i>	<i>Total</i>	<i>Funds Held</i>
	<i>Multi-Strategy</i>	<i>Absolute</i>	<i>Limited</i>			
	<i>Fund-of-Funds</i>	<i>Return</i>	<i>Partnership</i>	<i>Equity</i>	<i>Investments</i>	<i>by Others</i>
Balance as of January 1, 2009	\$ 7,993,850	\$ 4,201,165	\$ 4,887,327	\$ 1,574,777	\$ 18,657,119	\$ 3,333,442
Net unrealized gains (losses)	1,691,281	1,380,746	(1,120,226)	(77,739)	1,874,062	484,463
Net realized gains	-	-	234,879	-	234,879	-
Net investment expenses	-	-	(33,130)	-	(33,130)	-
Net purchases	-	5,906,041	277,655	94,592	6,278,288	-
Net (sales)	-	-	-	-	-	-
Transfers (out)	-	-	(38,203)	(94,592)	(132,795)	-
Balance as of December 31, 2009	9,685,131	11,487,952	4,208,302	1,497,038	26,878,423	3,817,905
Net unrealized gains (losses)	943,899	1,263,267	(896,914)	(116,009)	1,194,243	307,949
Net realized gains	-	230	-	7,151	7,381	-
Net purchases	-	-	4,758	142,659	147,417	-
Net (sales)	-	-	-	-	-	-
Transfers (out)	-	(6,568,031)	(4,809)	(149,810)	(6,722,650)	-
Balance as of December 31, 2010	<u>\$ 10,629,030</u>	<u>\$ 6,183,418</u>	<u>\$ 3,311,337</u>	<u>\$ 1,381,029</u>	<u>\$ 21,504,814</u>	<u>\$ 4,125,854</u>

Transfers out of Level 3 during 2010 includes an amount of \$6,568,031 representing an investment for which a one-year lock-up expired in August. This investment is now included in Level 2.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 4 - Fair Values of Financial Instruments (Continued)

A summary of Level 2 and 3 investments of the significant categories of investments utilizing the net asset value practical expedient and their attributes are as follows:

	<i>Fair Value</i>	<i>Unfunded Commitments</i>	<i>Redemption Frequency (if Currently Eligible)</i>	<i>Redemption Notice Period</i>
International equity funds	\$ 17,857,714	\$ -	monthly	6 - 30 days
Global asset allocation strategy	19,927,704	-	monthly	5 days
Private company equity	28,666,012	-	quarterly	90 days
Global fixed income fund	3,642,990	-	monthly	30 - 60 days
Multi-strategy hedge fund-of-funds	10,629,030	-	quarterly	65 days
Absolute return hedge funds	12,751,449	-	quarterly; annually	45; 90 days
Real asset commingled trust	7,462,447	-	monthly	7 days
Real estate limited partnership	3,311,337	-		liquidation of fund
Private equity	<u>1,381,029</u>	<u>480,000</u>		liquidation of fund
	<u>\$ 105,629,712</u>	<u>\$ 480,000</u>		

International equity funds – includes investments in funds that seek to achieve capital appreciation primarily through investments in equity-related securities and bonds of companies outside the United States. This category includes both growth and value-oriented funds, and managers that invest in both developed and emerging market countries. All of these funds are redeemable on a monthly basis with less than 30 days notice.

Global asset allocation strategy – includes one fund that seeks to achieve long-term capital appreciation primarily through investments in common stocks and bonds, including non-investment-grade debt securities. This fund may hold significant positions in securities of foreign issuers in addition to securities of domestic issuers. This fund is redeemable on a monthly basis with 5 days notice.

Private company equity – includes participating senior common stock in a private company that provides investment advisory, management and investor services for a range of collective investment vehicles and separately managed accounts for individual and institutional customers. Ownership of these shares is limited to certain groups of permitted holders, including persons employed by the company, its subsidiaries or other organizations with a continuing business relationship with the company, their personal representatives and charities.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 4 - Fair Values of Financial Instruments (Continued)

Global fixed income fund – includes one investment in a limited partnership that invests in high yield bonds, short-term and intermediate-term corporate bonds and other corporate fixed income obligations. This investment may be redeemed on a monthly basis with 30 days notice for partial withdrawals, and 60 days notice for full withdrawals.

Multi-strategy hedge fund-of-funds – includes one limited partnership investment that operates as an offshore feeder fund in a master-feeder type structure. The master fund is a multi-manager, multi-strategy fund-of-funds formed to invest predominantly in partnerships and similar pooled investment vehicles.

Absolute return hedge funds – includes investments in actively managed portfolios that aim to achieve positive annual returns relative to broad equity market indices. These funds invest primarily in equity and equity-related securities in both U.S. and non-U.S. markets, and to a lesser extent in fixed income securities in both U.S. and non-U.S. markets. These investments utilize many different investment strategies, including long and short positions, derivatives and leverage. Beginning March 1, 2011, approximately 52% of these assets are redeemable on a quarterly basis with 45 days notice. The remaining 48% is redeemable annually on July 1 with 90 days notice.

Real asset commingled trust – includes one investment in a commingled pool of liquid assets in four primary categories: global energy equities, global metals and mining equities, commodities, and U.S. Treasury Inflation Protected Securities. The portfolio has a strategic allocation of 40% to energy equities, 15% to metals and mining equities, 25% in commodities and 20% in fixed income assets. Within each segment, positions may be concentrated in specific sectors or regions. The investment is redeemable on a monthly basis with 7 days notice.

Real estate limited partnership – includes investments in private equity funds that invest primarily in a diversified portfolio of income producing properties. The partnership has invested in a geographically diversified portfolio of real estate investments, principally industrial, office, residential and retail properties. These investments are not redeemable; instead, distributions will be received as the underlying investments of the fund are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next seven to eight years.

Private equity – includes one private equity fund that invests in a pooled investment vehicle that makes venture investments in mezzanine situations. The investment is not redeemable; instead, the fund will terminate at the end of the term of the underlying investments. The Museum has an outstanding capital commitment to the fund of \$480,000.

Fair values of financial instruments for which the Museum did not elect the fair value option includes cash and cash equivalents, receivables, mortgages, accounts payable and bonds payable. Certain of these instruments are short term in nature and, accordingly, fair values are estimated to approximate carrying values. For the other instruments, management determined that the cost associated with assessing an estimate of fair value outweighed the benefits from this additional information. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable values could be materially different from the estimates at December 31, 2010.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 5 - Land, Buildings and Equipment

Land, buildings and equipment are carried at cost and consist of the following at December 31:

	2010	2009
Land and buildings	\$ 84,552,263	\$ 84,552,263
Capital improvements	19,559,933	19,594,078
Furniture, fixtures and equipment	12,311,882	12,584,026
Period houses	<u>999,528</u>	<u>999,528</u>
Total	117,423,606	117,729,895
Accumulated depreciation	<u>(39,168,044)</u>	<u>(35,538,972)</u>
Total	78,255,562	82,190,923
Construction in progress	<u>28,000</u>	<u>22,500</u>
Land, buildings and equipment, net	<u>\$ 78,283,562</u>	<u>\$ 82,213,423</u>

Depreciation expense was \$4,188,771 and \$4,243,582 for the years ended December 31, 2010 and 2009, respectively.

Note 6 - Collections and Works of Art

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

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 7 - Defined Contribution Plan

The Museum has a defined contribution plan covering all eligible employees. Employees become eligible to participate after completing one year of service and attaining the age of 21. The Museum contributes 6% (and in some cases higher amounts) of each eligible employee's annual salary. Contributions made by the Museum for the years ended December 31, 2010 and 2009 were \$615,649 and \$634,805, respectively.

Note 8 - Bonds Payable

Bonds payable consisted of the following for the years ended December 31:

	<i>2010</i>	<i>2009</i>
Massachusetts Health and Education Facilities Authority Peabody Essex Museum Issue, Series 2002 Revenue Bonds, interest payable monthly at the USD - BMA - Municipal Swap Index which was .30% and .25 %, respectively, principal due in annual installments through 2033	\$ <u><u>31,285,000</u></u>	\$ <u><u>32,210,000</u></u>

Principal payments are due as follows:

2011	\$ 975,000
2012	1,000,000
2013	1,025,000
2014	1,075,000
2015	1,100,000
Thereafter	<u>26,110,000</u>
	<u><u>\$ 31,285,000</u></u>

Payments on the bonds are guaranteed under a direct pay letter of credit issued by Bank of America. The letter of credit expired on July 1, 2010 at which time it was extended to July 1, 2015. The Museum is obligated, under a reimbursement agreement with the bank, to repay any drawings under the letter of credit. Under the terms of the reimbursement agreement, the Museum is subject to certain restrictive covenants involving financial results, additional indebtedness and the maintenance of certain financial ratios. The more restrictive covenants require that the Museum maintain a cash flow available for debt service of \$1 or greater and that the Museum's Liquid Assets, as defined in the current letter of credit agreement, be 1.45 times the funded debt. As of December 31, 2010 and 2009, the Museum was in compliance with its debt covenants.

Total bond interest expense including the effects of the swap was \$1,263,211 and \$1,273,588 in 2010 and 2009, respectively.

Letter of credit fees and bond administration and remarketing fees were \$281,924 and \$210,306 for the years ended December 31, 2010 and 2009, respectively.

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 9 - Interest Rate Swap

In March 2005, the Museum entered into an interest rate swap to manage its exposure to interest rate risk associated with the Museum's variable rate debt.

The Museum's interest rate swap has the following characteristics:

Notional amount	\$32,300,000
Termination date	April 1, 2015
Rate paid	3.865%
Rate received	USPSA

As of December 31, 2010, the Museum had recorded in the statement of activities as a nonoperating item a loss of \$457,665 related to the fair value of the interest rate swap. As of December 31, 2009, the Museum had recorded in the statement of activities as a nonoperating item a gain of \$719,515 related to the fair value of the interest rate swap.

Note 10 - Net Assets and Endowment Matters

Unrestricted Net Assets

Unrestricted net assets are comprised of the following:

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

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

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

	<i>2010</i>	<i>2009</i>
Fixed assets	\$ 43,125,529	\$ 46,541,079
Board-designated:		
Functioning as endowment	10,530,823	9,849,700
Not functioning as endowment	30,512,966	31,272,216
Operating	<u>2,748,248</u>	<u>1,259,300</u>
	<u>\$ 86,917,566</u>	<u>\$ 88,922,295</u>

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following:

Unrealized/realized gains on permanently restricted investments - In accordance with standards for accounting for investments and endowment funds held by not-for-profit organizations and with Massachusetts state law, these amounts represent unappropriated net appreciation on permanently restricted endowment investments.

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

Time restricted - Amounts designated by donors for use in future periods. Some of these funds are restricted as to purpose.

Funds held by others - Assets held in trust where the annual distribution of income is restricted in use by the donor. The amount in temporarily restricted is the unspent appreciation based on donor's purpose restriction on one permanently restricted trust.

Split-interest agreements - Assets under split-interest agreements for which the use of the remainder interest is stipulated by the donor.

	<i>2010</i>	<i>2009</i>
Unrealized and realized gains on permanently restricted investments:		
General support	\$ 43,600,166	\$ 35,129,198
Restricted	11,070,735	9,593,219
Purpose restricted	17,921,431	16,745,565
Time restricted	2,352,252	3,411,954
Split-interest agreements	295,600	265,119
Funds held by others	<u>340,095</u>	<u>227,959</u>
	<u><u>\$ 75,580,279</u></u>	<u><u>\$ 65,373,014</u></u>

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

Permanently Restricted Net Assets

Permanently restricted net assets are comprised of the following:

Endowment principal - Amounts restricted by donors against any expenditure of principal. Substantially all the income earned on principal may be used for general or donor-restricted purposes and is recorded in unrestricted net assets or temporarily restricted net assets, as appropriate.

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

Split-interest agreements - Assets under split-interest agreements for which the remainder interest is permanently restricted by the donor.

	<i>2010</i>	<i>2009</i>
Endowment principal:		
General support	\$ 118,218,788	\$ 76,006,515
Restricted	9,699,189	9,524,902
Pledges receivable	40,248,281	6,238,945
Funds held by others	3,785,759	3,589,946
Split-interest agreements	80,837	85,669
Other	999,528	999,528
	<u>\$ 173,032,382</u>	<u>\$ 96,445,505</u>

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

The following represents required disclosure relative to the composition and activities of endowment and funds functioning as endowment for the year ended December 31, 2010:

	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ 9,849,700	\$ 44,722,417	\$ 89,207,032	\$ 143,779,149
Gifts and additions	-	5,147	42,252,961	42,258,108
Investment returns:				
Interest and dividends, net of investment expenses	147,696	1,989,712	29,641	2,167,049
Net realized and unrealized gains (losses)	1,120,443	13,267,664	294,939	14,683,046
Total investment returns	1,268,139	15,257,376	324,580	16,850,095
Expenditures:				
Amounts appropriated for operations	(587,016)	(5,314,039)	-	(5,901,055)
Change in investments	681,123	9,948,484	42,577,541	53,207,148
Endowment assets and those functioning as endowment assets, end of year	\$ 10,530,823	\$ 54,670,901	\$ 131,784,573	\$ 196,986,297

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 10 - Net Assets and Endowment Matters (Continued)

The following represents required disclosure relative to the composition and activities of endowment and funds functioning as endowment for the year ended December 31, 2009:

	<i>Unrestricted Net Assets</i>	<i>Temporarily Restricted Net Assets</i>	<i>Permanently Restricted Net Assets</i>	<i>Total</i>
Endowment assets and those functioning as endowment assets, beginning of year	\$ <u>8,733,945</u>	\$ <u>31,922,033</u>	\$ <u>76,396,284</u>	\$ <u>117,052,262</u>
Gifts and additions	<u>-</u>	<u>-</u>	<u>12,225,902</u>	<u>12,225,902</u>
Investment returns:				
Interest and dividends, net of investment expenses	219,303	2,509,290	30,406	2,758,999
Net realized and unrealized gains (losses)	<u>1,514,299</u>	<u>15,157,232</u>	<u>554,440</u>	<u>17,225,971</u>
Total investment returns	<u>1,733,602</u>	<u>17,666,522</u>	<u>584,846</u>	<u>19,984,970</u>
Expenditures:				
Amounts appropriated for operations	<u>(617,847)</u>	<u>(4,866,138)</u>	<u>-</u>	<u>(5,483,985)</u>
Change in investments	<u>1,115,755</u>	<u>12,800,384</u>	<u>12,810,748</u>	<u>26,726,887</u>
Endowment assets and those functioning as endowment assets, end of year	\$ <u><u>9,849,700</u></u>	\$ <u><u>44,722,417</u></u>	\$ <u><u>89,207,032</u></u>	\$ <u><u>143,779,149</u></u>

PEABODY ESSEX MUSEUM, INC.

Notes to Financial Statements

Note 11 - Commitments and Contingencies

The Museum continues to carry a liability associated with environmental remediation costs associated with the migration of heating oil on its property. Management expects to incur the balance of these costs during the 2011 fiscal year. The Museum believes that its adjusted reserves for these costs are adequate. The Museum is seeking to recover these costs through insurance coverage, but it is not possible to estimate the amount of recovery at this time.

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

Note 12 - Related Party Transactions

The Museum has a mortgage receivable bearing interest at 6% annually from an officer of the Museum for \$197,316 at December 31, 2010 and 2009.

Certain members of the Museum's Board are employed by firms that provide legal services to the Museum. Aggregate payments under these arrangements were \$10,787 and \$8,306 for the years ended December 31, 2010 and 2009, respectively.