

MARTHA'S VINEYARD MUSEUM, INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
AND
INDEPENDENT AUDITOR'S REPORT

MARTHA'S VINEYARD MUSEUM, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Martha's Vineyard Museum, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Martha's Vineyard Museum, Inc. (the "Museum") which comprise the statement of financial position as of December 31, 2019, and the related statements 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 audit. We conducted our audit 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 of 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 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 Martha's Vineyard Museum, Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Martha's Vineyard Museum, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 30, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bollus Lynch, LLP

Worcester, Massachusetts
June 18, 2020

MARTHA'S VINEYARD MUSEUM, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

(With Summarized Financial Information for 2018)

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,562,822	\$ 1,167,382
Contributions receivable	689,994	1,556,235
Inventories	41,120	36,492
Prepaid expenses and other assets	<u>28,394</u>	<u>67,631</u>
Total current assets	2,322,330	2,827,740
Contributions receivable, net of current portion	575,756	861,176
Endowment investments	2,483,614	1,882,854
Property and equipment, net	<u>24,193,129</u>	<u>22,151,924</u>
	<u>\$ 29,574,829</u>	<u>\$ 27,723,694</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 771,108	\$ 874,882
Note payable, bank	<u>7,000,000</u>	<u>6,400,000</u>
Total liabilities	<u>7,771,108</u>	<u>7,274,882</u>
Net assets		
Without donor restrictions		
Operating	492,013	304,110
Plant	16,867,671	14,993,657
With donor restrictions	<u>4,444,037</u>	<u>5,151,045</u>
Total net assets	<u>21,803,721</u>	<u>20,448,812</u>
	<u>\$ 29,574,829</u>	<u>\$ 27,723,694</u>

See accompanying independent auditor's report and notes to financial statements.

MARTHA'S VINEYARD MUSEUM

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019
(With Summarized Financial Information for 2018)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2019	2018
Operating activities:				
Revenue, gains, and other support				
Admissions and fees	\$ 270,072	\$ -	\$ 270,072	\$ 28,306
Contributions	585,078	116,688	701,766	643,617
Grant income	289,450	160,000	449,450	18,056
Sales	97,933	-	97,933	12,603
Special fund raising events, net of direct benefit to donors of \$236,177 in 2019 and \$114,252 in 2018	200,999	-	200,999	151,933
Lighthouse admissions and fees	63,994	-	63,994	70,745
Interest and other income	25,351	797	26,148	21,541
Net assets released from restriction				
Satisfaction of purpose restrictions	460,132	(460,132)	-	-
Endowment return appropriated for operations	58,600	-	58,600	49,110
Appropriation from Capital Campaign	705,000	-	705,000	640,000
Total	2,756,609	(182,647)	2,573,962	1,635,911
Operating expenses				
Program services	2,028,211	-	2,028,211	923,897
Supporting services				
General and administrative	602,276	-	602,276	401,502
Membership and fundraising	293,304	-	293,304	188,482
Total	2,923,791	-	2,923,791	1,513,881
Change in net assets before depreciation expense	(167,182)	(182,647)	(349,829)	122,030
Depreciation expense	961,865	-	961,865	54,570
Change in net assets from operating activities	<u>(1,129,047)</u>	<u>(182,647)</u>	<u>(1,311,694)</u>	<u>67,460</u>
Non-operating activities				
Comprehensive capital campaign activities				
Capital campaign contributions	-	2,291,620	2,291,620	4,235,108
Interest income	-	777	777	1,195
Capital campaign and project expenses	(68,809)	-	(68,809)	(611,545)
Satisfaction of capital campaign restrictions				
Completion of capital projects	3,073,709	(3,073,709)	-	-
Capital campaign and project expenses	68,809	(68,809)	-	-
Appropriation for operations	(705,000)	-	(705,000)	(640,000)
Other non-operating activities				
Contributions for property acquisitions	827,500	-	827,500	1,684,904
Endowment investment return	-	384,360	384,360	(96,547)
Endowment investment return appropriated for operations	-	(58,600)	(58,600)	(49,110)
Gain on sale of property	-	-	-	3,241,913
Change in net assets from non-operating activities	<u>3,196,209</u>	<u>(524,361)</u>	<u>2,671,848</u>	<u>7,765,918</u>
Change in net assets before changes related to collection items	2,067,162	(707,008)	1,360,154	7,833,378
Purchase of collection items	(5,245)	-	(5,245)	(5,550)
Change in net assets	2,061,917	(707,008)	1,354,909	7,827,828
Net assets, beginning of year	<u>15,297,767</u>	<u>5,151,045</u>	<u>20,448,812</u>	<u>12,620,984</u>
Net assets, end of year	<u>\$ 17,359,684</u>	<u>\$ 4,444,037</u>	<u>\$ 21,803,721</u>	<u>\$ 20,448,812</u>

See accompanying independent auditor's report and notes to financial statements.

MARTHA'S VINEYARD MUSEUM, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

(With Summarized Financial Information for 2018)

	Program	General and Administrative	Membership and Fund Raising	Totals	
				2019	2018
Salaries and wages	\$ 721,721	\$ 285,981	\$ 193,049	\$ 1,200,751	\$ 866,119
Employee benefits	39,507	27,248	9,521	76,276	68,747
Payroll taxes	60,105	23,816	16,077	99,998	68,439
Total personnel expenses	821,333	337,045	218,647	1,377,025	1,003,305
Accounting and legal	-	22,029	-	22,029	18,732
Advertising	-	86,176	-	86,176	51,972
Collection and exhibits	166,998	-	-	166,998	33,718
Contract services and professional fees	38,600	8,649	21,261	68,510	36,494
Cost of sales	66,294	-	-	66,294	15,869
Dues and subscriptions	3,220	175	248	3,643	1,273
Insurance	7,336	46,322	-	53,658	27,081
Lighthouses	208,559	-	-	208,559	38,023
Occupancy					
Utilities	67,755	6,023	1,505	75,283	29,151
Landscaping	-	22,537	-	22,537	4,772
Repairs and maintenance	30,410	10,603	-	41,013	9,205
Security	330	-	-	330	2,852
Trash removal	-	8,583	-	8,583	4,383
Interest	219,750	19,533	4,883	244,166	-
Printing, postage and mailing	304	1,051	23,848	25,203	14,077
Publications for membership	56,959	-	-	56,959	32,906
Programs and events	289,903	-	9,474	299,377	134,929
Supplies	9,310	8,112	5,721	23,143	16,221
Telephone	-	1,382	-	1,382	13,357
Travel	1,553	859	746	3,158	1,755
Technology	21,873	26,351	849	49,073	-
Other	17,724	(3,154)	6,122	20,692	23,806
Total operating expenses before depreciation and amortization	2,028,211	602,276	293,304	2,923,791	1,513,881
Depreciation and amortization	865,679	76,949	19,237	961,865	54,570
Total operating expenses	2,893,890	679,225	312,541	3,885,656	1,568,451
Special fundraising event expenses	-	-	236,177	236,177	114,252
Capital campaign and project expenses					
Contracted services	53,275	-	-	53,275	487,280
Repairs and small equipment	163	180	-	343	62,908
Other Expenses	-	8,502	6,689	15,191	61,357
Total capital campaign and project expenses	53,438	8,682	6,689	68,809	611,545
Total functional expenses	\$ 2,947,328	\$ 687,907	\$ 555,407	\$ 4,190,642	\$ 2,294,248

See accompanying independent auditor's report and notes to financial statements.

MARTHA'S VINEYARD MUSEUM, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2019

(With Summarized Financial Information for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	<u>\$ 1,354,909</u>	<u>\$ 7,827,828</u>
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Adjustments related to operating activities:		
Depreciation and amortization	961,865	54,570
Net investment (gain) loss	(323,770)	171,028
Gain on sale of property and equipment	-	(3,241,913)
Uncollectible accounts expense	50,000	-
Changes in operating assets and liabilities:		
Contributions receivable	(206,268)	9,001
Inventories	(4,628)	12,298
Prepaid expenses and other assets	39,237	(44,417)
Accounts payable and accrued liabilities	(10,965)	51,061
Adjustments related to capital campaign activities:		
Revenue restricted for capital activities	(2,821,878)	(5,428,874)
Revenue restricted for endowment investment	(297,242)	(491,138)
Capital campaign and project expenses	<u>68,809</u>	<u>611,545</u>
Total adjustments	<u>(2,544,840)</u>	<u>(8,296,839)</u>
Net cash used in operating activities	<u>(1,189,931)</u>	<u>(469,011)</u>
Cash flows from investing activities:		
Expenditures for property and equipment	(3,095,880)	(14,605,586)
Proceeds from sales of property and equipment	-	3,557,665
Purchases of endowment investments	(335,590)	(534,780)
Proceeds from sales of endowment investments	58,600	49,110
Capital campaign and project expenses	<u>(68,809)</u>	<u>(611,545)</u>
Net cash used in investing activities	<u>(3,441,679)</u>	<u>(12,145,136)</u>
Cash flows from financing activities:		
Proceeds from note payable, bank	600,000	6,400,000
Contributions collected for endowment investment	340,157	480,300
Contributions collected for capital activities	<u>4,086,893</u>	<u>5,474,899</u>
Net cash provided by financing activities	<u>5,027,050</u>	<u>12,355,199</u>
Net increase (decrease) in cash and cash equivalents	395,440	(258,948)
Cash and cash equivalents, beginning of year	<u>1,167,382</u>	<u>1,426,330</u>
Cash and cash equivalents, end of year	<u>\$ 1,562,822</u>	<u>\$ 1,167,382</u>
Supplemental disclosures of cash flows information is as follows		
Cash paid during the year for :		
Interest	\$ 244,166	\$ 151,819

See accompanying independent auditor's report and notes to financial statements.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION

The Martha's Vineyard Museum was founded in 1922 and incorporated as the Dukes County Historical Society, Inc. on July 12, 1923. On August 19, 1996, the corporate name was changed to Martha's Vineyard Historical Society, Inc. (the "Society"). During 2006, the Board of Directors authorized the use of the name "Martha's Vineyard Museum" while retaining its corporate name. During 2010, the Board of Directors changed the corporate name to Martha's Vineyard Museum, Inc. (the "Museum"). The Martha's Vineyard Museum inspires all people to discover, explore, and strengthen their connections to this island and its diverse heritage.

During 2018 the Museum completed its relocation to its new campus in Vineyard Haven. The more than 4 acre campus is developed around the historic 1895 Marine Hospital and also includes an attached pavilion housing a First Order Fresnel Lens and a separate building for displaying large collection items such as boats and wagons. The Museum retained a portion of the previous Edgartown campus containing the historic Cooke House to be developed as an historic home and garden. The Museum also has stewardship of the Edgartown and East Chop lighthouses. The Museum has permanent and changing exhibits that explore the history, culture, art, natural history and landscape of Martha's Vineyard Island. The Museum also offers a broad range of adult and children's educational programs, exhibits and events to members and the general public.

Comprehensive capital campaign

In late 2012 the Museum initiated a Comprehensive Capital Campaign to raise funds for the relocation of its campus to the property in Vineyard Haven purchased in September 2011. The Campaign has raised funds for three objectives: construction of facilities, additions to the Museum's endowment, and funding for operations support and program expansion during the period of planning and transition to the new location. All contributions to the campaign are considered temporarily restricted. Contributions to the general campaign may be used to satisfy direct campaign expenses or may be appropriated for operations by the Board in accordance with the planned objectives and budget for the Campaign. Contributions to specific objectives of the campaign remain temporarily restricted until the donor restriction is satisfied. For the Comprehensive Capital Campaign, the Museum raised \$2,291,620 and \$4,235,108 in cash and pledges in 2019 and 2018, respectively, which are included in the financial statements. In addition, beyond these amounts, the museum received intentions to give of \$156,216 and \$220,000 through letters of intent or pledges with certain conditions in 2019 and 2018, respectively.

Construction of the New Campus - Following preparation of the concept design for the new campus in Vineyard Haven in 2014, detailed architectural planning in 2016 and steady progress in the fund raising described above, the Museum started construction on the new campus in mid-2017. As first steps, the Museum satisfied all town and island approvals, completed archaeological explorations and addressed hazardous material abatement in the historic Marine Hospital to be renovated. Total project construction and non-construction costs are now estimated to be approximately \$19,750,000 and are primarily presented as expenditures for property and equipment, with some shown as expenses. The move from Edgartown to the new campus was completed in 2018, with completion of the construction process, set up of exhibition space and opening to the public in early 2019.

Museum Opening - On March 13, 2019, the Museum completed the long planning and development process for its new campus and opened its doors for the public. This first year was formally kicked off with a Grand Opening Celebration on June 29, 2019, with over 500 for dinner under a tent on the front lawn capped off by fireworks. The first year of operations provided greatly increased exhibit and programming activities, including a Thomas Hart Benton art exhibit with valuable works loaned from around the country. This produced results that well surpassed expectations with over 25,000 visitors for the year, greatly increased attendance at Museum activities and significant growth in memberships.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - DESCRIPTION OF ORGANIZATION (Continued)

Cooke House Property in Edgartown - With the Museum relocation to its new campus, the Cooke House will remain a Museum property in Edgartown on an over 17,000 square foot site, which will be developed as a historic home and garden to be known as the Cooke House and Legacy Gardens. Additional funds are being raised to support the establishment of the garden area, ongoing maintenance to the property and educational programming. In 2019 the Museum spent \$144,068 of these restricted funds for the initial grading and development of the property.

Sale of Edgartown Property - The remaining Edgartown property of almost 22,000 square feet was sold in late 2018 for net proceeds of \$3,557,665 plus a deposit of \$200,033 received in 2017. These funds were used to support the overall Comprehensive Campaign program.

Houses Bordering New Campus - In 2018 there was an opportunity to purchase two houses that border the new Marine Hospital campus in Vineyard Haven. A group of donors contributed a total of \$1,684,904 to enable the Museum to purchase the houses and undertake some improvements. One has been converted into office space for Museum staff and collection storage space. The second one is in poor condition but will provide the opportunity for future development of office and storage space, and possibly temporary housing. In early 2019 there was an opportunity to purchase a third house bordering the new campus and some of the same donors contributed \$800,000 to complete this transaction. It is currently being used for temporary housing and the parcel also provides an access route to the museum from a neighboring street.

Bank Loan Agreement - During 2017 the Museum reached agreement with a local bank to lend the Museum up to \$6,000,000 to help manage the timing differences for construction project costs and receipt of pledge payments and proceeds from real estate sales. This bank agreement terminates in July, 2022. The purpose of the bank loan is only to help manage cash flow during the construction period. In June, 2018 the level of borrowing availability was increased to \$10,000,000, and with the repayment of \$2,000,000 in December, 2018 the level of borrowing availability was then reduced to \$8,000,000. At the end of 2019 there is \$7,000,000 in borrowings outstanding, but the Museum does not anticipate having any outstanding loan balance when fund raising is completed.

Key Events in Early 2020 - In mid-March, 2020, in response to the worldwide coronavirus pandemic, the Museum made the decision to close its campus to the public, and to have its staff start working from home. While the Museum is planning for opening steps during the summer, it is still closed as this is written. During this period the Museum has greatly expanded its online and virtual program offerings.

Description of activities

The following activities and supporting services are included in the accompanying financial statements:

Publications - Foster knowledge, stimulate interest, and facilitate participation in public and private historic preservation through the printing and publication of the Museum's general materials, magazine and the administration of book publishing.

Education - Encourage an understanding of all aspects of preservation and the development of related skills through such programs as providing essential restoration trade skills, identifying and nurturing target audiences (including the schools and children's programs) from communication, merchandising, preservation-related products, and understanding of local heritage including influences of whaling.

Historical properties - Comprise activities designed to preserve and manage effectively for public benefit the Museum's real and personal property and administers programs for the preservation of historic properties such as lighthouses.

Preservation services - Includes information and technical assistance to the Museum's members, private and public organizations, and governmental bodies with respect to contemporary preservation issues, including maritime preservation, and the efficient oversight and administration of interns provided by regional colleges and universities.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Museum prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the Museum are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of accounting

The financial statements of the Museum have been prepared on the accrual method of accounting. Accordingly, assets are recorded when the Museum obtains the rights of ownership or is entitled to claims for receipt, and liabilities are recorded when the obligation is incurred.

Accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Museum's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Museum's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions - Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the Museum, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. In addition, the governing board of the Museum may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Net assets with donor restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Museum must continue to use the resources in accordance with the donor's instructions.

The Museum's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Museum, unless the donor provides more specific directions about the period of its use.

Summarized comparative information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

Cash

The Museum maintains accounts at various financial institutions which, at times, may exceed federally insured limits. The Museum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Inventories

Inventories, which consist of gift shop items, are stated at the lower of cost or net realizable value on a first-in, first-out (FIFO) method.

Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectibility of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Investments

Investments are reported at their fair value. The net investment return is reported in the statement of activities as unrestricted increases or decreases unless its use is restricted by explicit donor stipulations or by law.

Endowment funds

The purpose of the Endowment is to provide a steady but growing stream of income to the Museum over future years. The Endowment will provide the means for the Museum to accept lasting gifts from individuals and other entities that will both honor and perpetuate the Mission of the Museum and the Museum's programs in carrying out that Mission. The Museum's endowment consists of individual donor restricted funds established for a variety of purposes. Its endowment includes both donor restricted endowment funds and funds designated by the Museum to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed or legal restrictions.

As required by generally accepted accounting principles, the Museum classifies as donor restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as non-expendable net assets is classified as expendable net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by state law.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

In accordance with the Uniform Prudent Management of Institutional Funds Act, the Museum may consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the Museum and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the Museum; and the investment policies of the Museum.

The Museum has adopted investment and spending policies for its board-designated and other endowment assets that attempt to provide a predictable stream of funding for its programs while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board, the endowment assets are invested in a portfolio of debt and equity securities with the objective of achieving long-term capital appreciation while moderating the level of investment risk. Actual returns in any given year may vary from this amount.

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, dividends and net rental income). The Museum has invested in debt and equity securities that target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Museum has a policy that the Board, after consultation with the finance committee, may appropriate for distribution each year not more than 5% of the applicable market value of the endowment.

Property and equipment

Property and equipment are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$2,500 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets.

Impairment of long-lived assets and long-lived assets to be disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Collection

As allowed by accounting principles generally accepted in the United States of America and following the practices of many museums, the Museum has not capitalized its collection of items of historical nature and other related objects purchased or donated. The collection is held for public exhibition, education, or research in furtherance of public service rather than financial gain. The Museum continually reviews its collection and may de-access or acquire additional items. Expenditures for additional collection items are presented as a reduction in the appropriate class of net assets. Proceeds from de-accessions are reflected as increases in net assets without restrictions. The Museum has established a policy that requires the proceeds from items de-accessed to be used to acquire other items for the collection.

Measure of operations

In its statement of activities, the Museum includes in its definition of *operations* all revenues and expenses that are an integral part of its programs and supporting activities. The Museum considers the comprehensive capital campaign, investment return in excess of the amount appropriated for operations, other contributions and bequests for endowment and capital activities, and all collection related activity be classified as non-operating activities.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions, gifts, grants

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

The Museum is a beneficiary under several donors' wills. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid and the Museum has an irrevocable right to the bequest.

Gifts-in-kind contributions

The Museum receives contributions in a form other than cash or investments. If material, donated supplies and other items are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed. If the Museum receives a contribution of land, buildings, or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the Museum's capitalization policy. Donated use of facilities is reported as contributions and as expenses at the estimated fair value of similar space for rent under similar conditions. If the use of the space is promised unconditionally for a period greater than one year, the contribution is reported as a contribution and an unconditional promise to give at the date of gift, and the expense is reported over the term of use.

The Museum benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Museum's program operations and in its fund-raising events. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. GAAP allows recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. There were no donated services that met the criteria to be included in in-kind contributions in the statement of activities.

Expense recognition and allocation

The cost of providing the Museum's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.
- Occupancy, depreciation and interest are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.
- Telephone and internet services, insurance, and supplies and miscellaneous expenses that cannot be directly identified are allocated on the same basis as occupancy costs.

Management periodically evaluates the bases on which costs are allocated.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense recognition and allocation (continued)

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Museum.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Museum generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred. Advertising and public relations expense was \$87,582 and \$87,090 in 2019 and 2018, respectively, including \$1,406 and \$35,118 related to the capital campaign.

Tax-exempt status

The Museum is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to the Museum are tax deductible to donors under Section 170 of the IRC. The Museum is not classified as a private foundation.

3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2019 and 2018 are:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash	\$ 1,562,822	\$ 1,167,382
Contributions receivable, net	1,265,750	2,417,411
Other assets	1,289	-
Endowment investments	<u>2,483,614</u>	<u>1,882,584</u>
Total financial assets	5,313,475	5,467,377
Less: Financial assets held to meet donor-imposed restrictions:		
Purpose-restricted net assets	320,338	258,969
Capital restricted net assets	1,555,802	2,718,502
Donor-restricted endowment funds	2,548,614	2,105,551
Less: Financial assets not available within one year:		
Contributions receivable	<u>30,000</u>	<u>40,319</u>
Amount available for general expenditures within one year	<u>\$ 607,474</u>	<u>\$ 344,036</u>

The above table reflects donor-restricted endowment funds as unavailable because it is the Museum's intention to invest those resources for the long-term support of the Museum. However, in the case of need, the Board of Directors could appropriate resources from the donor-restricted funds available for general use (\$2,548,614, of which \$2,187,433 is the original gift). Note 2 provides more information about those funds and about the spending policies for all endowment funds.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of:

	<u>2019</u>	<u>2018</u>
With donor restrictions		
Operating - Lighthouse access	\$ 40,000	\$ 50,000
Operating - Education programs	50,000	-
Operating - Other programs	-	19,200
Capital campaign - for endowment	-	218,731
Capital campaign	<u>1,243,828</u>	<u>2,257,635</u>
	1,333,828	2,545,566
Less: Unamortized discount	<u>68,078</u>	<u>128,155</u>
	<u>\$ 1,265,750</u>	<u>\$ 2,417,411</u>

As of December 31, 2019, the Museum had additional outstanding intentions to give of \$228,480 through letters of intent or pledges with certain specified conditions, which are not included above.

As of December 31, 2019, pledges are expected to be received according to the following schedule:

	<u>Operating</u>	<u>Capital Campaign</u>
Within one year	\$ 60,000	\$ 629,994
One to five years	<u>30,000</u>	<u>613,834</u>
	<u>\$ 90,000</u>	<u>\$ 1,243,828</u>

5 - ENDOWMENT INVESTMENTS

Endowment investments are presented in the financial statements at fair value and are comprised of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Mutual funds	<u>\$ 2,483,614</u>	<u>\$ 1,882,854</u>

Investments are included in the following net asset categories in the statement of financial position:

	<u>2019</u>	<u>2018</u>
Donor restricted endowment funds		
Unappropriated return	\$ 361,181	\$ 35,421
Original gifts	<u>2,122,433</u>	<u>1,847,433</u>
Total	<u>\$ 2,483,614</u>	<u>\$ 1,882,854</u>

The following summarizes the net investment return included in the statement of activities:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 60,590	\$ 74,481
Investment gains (losses)	<u>323,770</u>	<u>(171,028)</u>
	<u>\$ 384,360</u>	<u>\$ (96,547)</u>

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - ENDOWMENT INVESTMENTS (Continued)

Changes in endowment investments are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investments, December 31, 2017	\$ -	\$ 1,561,255	\$ 1,561,255
Investment return:			
Interest and dividend income	-	74,481	74,481
Investment gains (realized and unrealized)	-	(171,028)	(171,028)
Total investment return	-	(96,547)	(96,547)
Additions	-	467,256	467,256
Appropriation for operations	-	(49,110)	(49,110)
Endowment investments, December 31, 2018	-	1,882,854	1,882,854
Investment return:			
Interest and dividend income	-	60,590	60,590
Investment losses (realized and unrealized)	-	323,770	323,770
Total investment return	-	384,360	384,360
Additions	-	275,000	275,000
Appropriation for operations	-	(58,600)	(58,600)
Endowment investments, December 31, 2019	\$ -	\$ 2,483,614	\$ 2,483,614

In addition to endowment investments, the Museum has cash awaiting investment of \$65,000 in 2019 and contributions receivable, net restricted for endowment of \$206,516 as of December 31, 2018.

6 - PROPERTY AND EQUIPMENT

Property and equipment, together with estimated useful lives, consist of the following:

	Estimated Useful Lives	2019	2018
Land	-	\$ 2,154,333	\$ 1,272,033
Historic buildings	-	177,768	177,768
Buildings and improvements	7 - 31 years	21,143,655	2,088,232
Equipment and furniture	3 - 10 years	1,943,450	38,195
Construction in progress	-	94,431	18,940,340
		25,513,637	22,516,568
Less: Accumulated depreciation		1,320,508	364,644
		<u>\$ 24,193,129</u>	<u>\$ 22,151,924</u>

Depreciation for property and equipment was \$961,865 and \$54,570 in 2019 and 2018, respectively. Interest costs of \$0 and \$151,819 were capitalized in 2019 and 2018, respectively, as part of construction in progress.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

7 - NOTE PAYABLE, BANK

In 2017 the Museum entered into a loan arrangement with a bank to provide up to \$6,000,000 of bridge funding for construction costs. The loan is secured by a mortgage on real property owned by the Museum. During 2018, the amount available under the agreement was increased to \$10,000,000. Once advances over the initial \$6,000,000 line are repaid, the total amount available is reduced by that amount. During 2018, total advances reached \$8,400,000. The Museum repaid \$2,000,000 during 2018 reducing the total available amount to \$8,000,000 with \$6,400,000 outstanding as of December 31, 2018. During 2019 the Museum drew an additional \$600,000 on the line resulting in an outstanding balance of \$7,000,000 as of December 31, 2019. The balance of the loan is payable in full in July, 2022. Interest is payable monthly at a fixed rate of 3.99%.

8 - NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2019 and 2018, net assets with donor restrictions are available for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Purpose restrictions, available for spending:		
Capital Campaign	\$ 412,834	\$ 583,130
Other capital items	124,237	108,546
Educational programs	21,565	23,677
Collection acquisitions	-	5,000
Other	39,043	7,127
Film and book publishing	31,994	50,787
Future operations	-	63,832
Total purpose restricted net assets	<u>629,673</u>	<u>842,099</u>
Time restrictions:		
Contributions receivable, which are unavailable for spending until due, some of which are also subject to purpose and endowment restrictions	<u>1,265,750</u>	<u>2,409,911</u>
Endowment funds, which must be appropriated by the Board of Directors before use:		
Original gifts	2,187,433	1,863,614
Unappropriated return	<u>361,181</u>	<u>35,421</u>
Total endowment funds managed by the Museum	<u>2,548,614</u>	<u>1,899,035</u>
Total net assets with donor restrictions	<u>\$ 4,444,037</u>	<u>\$ 5,151,045</u>

During 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows:

Operations	\$ 63,832
Educational programs	129,219
Film and book publishing	111,862
Cook House gardens project	46,657
Other programs	<u>108,562</u>
	460,132
Capital Campaign activities	
Completion of capital projects	3,026,333
Capital campaign and project expenses	68,809
Appropriation for operations	<u>58,600</u>
	<u>\$ 3,613,874</u>

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

9 - STATEMENT OF CASH FLOWS

As of December 31, 2019 accounts payable included \$665,458 related to the construction project, including a retainage of \$181,072. This balance will be reflected as a use of cash for the purchase of property and equipment when it is disbursed.

10 - CONCENTRATIONS OF RISK

The Museum's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to the Museum's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

11 - COMMITMENTS

The Museum entered into a construction contract for the renovation of the Marine Hospital building in the amount of \$12,369,229. Subsequently, change orders in the amount of \$741,391 were approved bringing the total commitment to \$13,110,620. As of December 31, 2019 the Museum had paid \$12,767,697 on the contract. In addition, accounts payable and accrued liabilities include \$144,386 related to the December 2019 certification for payment and \$181,072 for the contract's retainage as of December 31, 2019. As of December 31, 2019, the Museum is committed to an additional \$17,465 on the contract, but the Museum anticipates receiving a builder's credit in the same amount.

12 - RELATED-PARTY TRANSACTIONS

Contributions receivable include \$146,670 and \$904,656 of amounts due from Board members in 2019 and 2018, respectively. Contributions received from Board Members were \$201,678 in 2019.

13 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 18, 2020, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses, including the Museum. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Museum operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Museum, the Museum expects significant impacts to business operations due to the quarantine and isolation orders in place throughout the geographic area.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including allowance for uncollectible pledges.

14 - RECLASSIFICATION

Certain amounts in the 2018 financial statements have been reclassified to conform with the 2019 presentation. Such reclassifications had no effect on the change in net assets as previously reported.,