

MARTHA'S VINEYARD MUSEUM, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

AND

INDEPENDENT AUDITOR'S REPORT

MARTHA'S VINEYARD MUSEUM, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Martha's Vineyard Museum, Inc. (the Museum), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Museum as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

(Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Museum's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 16, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ballus Lynch, LLP

Worcester, Massachusetts
June 15, 2022

MARTHA'S VINEYARD MUSEUM, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2021

(With Summarized Comparative Information for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,256,089	\$ 1,190,727
Contributions receivable	239,475	442,604
Inventories	44,431	40,453
Prepaid expenses and other assets	<u>27,892</u>	<u>26,231</u>
Total current assets	1,567,887	1,700,015
Contributions receivable, net of current portion	189,092	368,514
Endowment investments	3,002,156	2,811,146
Property and equipment, net	<u>22,838,910</u>	<u>23,546,447</u>
	<u>\$ 27,598,045</u>	<u>\$ 28,426,122</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 406,535	\$ 415,817
Customer deposits and deferred revenue	<u>77,405</u>	<u>3,298</u>
Total current liabilities	483,940	419,115
Note payable, bank	<u>6,000,000</u>	<u>6,800,000</u>
Total liabilities	<u>6,483,940</u>	<u>7,219,115</u>
Net assets		
Without donor restrictions		
Operating	1,069,269	720,434
Plant	16,513,452	16,420,989
With donor restrictions	<u>3,531,384</u>	<u>4,065,584</u>
Total net assets	<u>21,114,105</u>	<u>21,207,007</u>
	<u>\$ 27,598,045</u>	<u>\$ 28,426,122</u>

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

MARTHA'S VINEYARD MUSEUM, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021
(With Summarized Comparative Information for 2020)

	Without Donor	With Donor	Totals	
	Restrictions	Restrictions	2021	2020
Operating activities:				
Revenue, gains, and other support				
Admissions and program fees	\$ 175,280	\$ -	\$ 175,280	\$ 61,053
Memberships	201,744	-	201,744	200,055
Contributions and sponsorships	728,645	87,845	816,490	886,815
Grant income	265,628	-	265,628	299,721
Sales	41,953	-	41,953	21,865
Special fund raising events, net of direct benefit to donors of \$95,723 in 2021 and \$2,200 in 2020	205,946	-	205,946	59,700
Lighthouse admissions and fees	64,405	-	64,405	21,307
Rental, interest and other income	34,866	-	34,866	6,844
Net assets released from restriction				
Satisfaction of purpose restrictions	175,136	(175,136)	-	-
Endowment investment return appropriated for operations	84,500	-	84,500	72,800
Appropriation from Capital Campaign for operations	-	-	-	500,000
Total	<u>1,978,103</u>	<u>(87,291)</u>	<u>1,890,812</u>	<u>2,130,160</u>
Operating expenses				
Program services	1,575,506	-	1,575,506	1,692,368
Supporting services				
General and administrative	501,942	-	501,942	553,671
Membership and fundraising	162,017	-	162,017	173,255
Total	<u>2,239,465</u>	<u>-</u>	<u>2,239,465</u>	<u>2,419,294</u>
Change in net assets before depreciation expense	(261,362)	(87,291)	(348,653)	(289,134)
Depreciation expense	983,207	-	983,207	960,870
Change in net assets from operating activities	<u>(1,244,569)</u>	<u>(87,291)</u>	<u>(1,331,860)</u>	<u>(1,250,004)</u>
Non-operating activities				
Comprehensive capital campaign activities				
Capital contributions and grants	-	870,468	870,468	398,684
Loss on uncollectible pledges	-	(33,000)	(33,000)	-
Capital and project expenses	(276,806)	-	(276,806)	(45,675)
Net assets released from capital restrictions				
Capital campaign projects	1,310,767	(1,310,767)	-	-
Appropriation from Capital Campaign for operations	-	-	-	(500,000)
Other non-operating activities				
Contributions for other property related activities	259,700	236,947	496,647	542,348
Endowment investment return	-	275,510	275,510	335,332
Net assets released from restrictions				
Satisfaction of purpose restrictions	401,567	(401,567)	-	-
Endowment investment return appropriated for operations	-	(84,500)	(84,500)	(72,800)
Change in net assets from non-operating activities	<u>1,695,228</u>	<u>(446,909)</u>	<u>1,248,319</u>	<u>657,889</u>
Change in net assets before changes related to collection items	450,659	(534,200)	(83,541)	(592,115)
Purchase of collection items	(9,361)	-	(9,361)	(4,599)
Change in net assets	441,298	(534,200)	(92,902)	(596,714)
Net assets, beginning of year	<u>17,141,423</u>	<u>4,065,584</u>	<u>21,207,007</u>	<u>21,803,721</u>
Net assets, end of year	<u>\$ 17,582,721</u>	<u>\$ 3,531,384</u>	<u>\$ 21,114,105</u>	<u>\$ 21,207,007</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, 2021
(With Summarized Comparative Information for 2020)

	Program	General and Administrative	Membership and Fundraising	Totals	
				2021	2020
Salaries and wages	\$ 729,573	\$ 262,120	\$ 70,363	\$ 1,062,056	\$ 1,115,986
Employee benefits	54,315	26,392	10,268	90,975	87,469
Payroll taxes	58,687	21,085	5,660	85,432	93,556
Total personnel expenses	842,575	309,597	86,291	1,238,463	1,297,011
Accounting and legal	-	6,272	-	6,272	20,693
Advertising	39,812	5,924	1,105	46,841	70,031
Collection and exhibits	90,491	-	-	90,491	53,357
Contract services and professional fees	18,448	18,448	22,108	59,004	75,446
Cost of sales	22,193	-	-	22,193	14,426
Insurance	57,717	5,130	1,283	64,130	68,168
Lighthouses	19,285	-	-	19,285	13,695
Occupancy					
Utilities	77,682	6,905	1,726	86,313	67,107
Landscaping	64,938	5,772	1,443	72,153	60,272
Repairs and maintenance	57,317	78,360	1,274	136,951	61,527
Interest	226,782	20,158	5,040	251,980	276,396
Programs and events	34,825	-	5,875	40,700	260,908
Technology	7,467	17,088	-	24,555	20,327
Other	15,974	28,288	35,872	80,134	59,930
Total operating expenses before depreciation and amortization	1,575,506	501,942	162,017	2,239,465	2,419,294
Depreciation and amortization	884,886	78,657	19,664	983,207	960,870
Total operating expenses	2,460,392	580,599	181,681	3,222,672	3,380,164
Special fundraising event expenses	-	-	95,723	95,723	2,200
Capital campaign and project expenses					
Contracted services	259,700	-	-	259,700	10,591
Repairs and small equipment	-	-	-	-	30,917
Other expenses	-	17,106	-	17,106	4,167
Total capital campaign and project expenses	259,700	17,106	-	276,806	45,675
Total functional expenses	\$ 2,720,092	\$ 597,705	\$ 277,404	\$ 3,595,201	\$ 3,428,039

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

MARTHA'S VINEYARD MUSEUM, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2021

(With Summarized Comparative Information for 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ (92,902)	\$ (596,714)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Adjustments related to operating activities:		
Depreciation and amortization	983,207	960,870
Net investment gains	(163,398)	(240,950)
Forgiveness of PPP loan	(261,613)	(238,342)
Loss on uncollectible pledges	33,000	-
Changes in operating assets and liabilities:		
Contributions receivable	139,546	111,245
Inventories	(3,978)	667
Prepaid expenses and other assets	(1,661)	2,163
Accounts payable and accrued liabilities	(9,282)	(15,291)
Customer deposits and deferred revenue	74,107	3,298
Adjustments related to capital campaign activities:		
Revenue restricted for capital activities	(870,468)	(398,684)
Capital campaign and project expenses	348,962	45,675
Total adjustments	<u>268,422</u>	<u>230,651</u>
Net cash provided by (used in) operating activities	<u>175,520</u>	<u>(366,063)</u>
Cash flows from investing activities:		
Expenditures for property and equipment	(275,670)	(654,188)
Purchases of endowment investments	(112,112)	(159,382)
Proceeds from sales of endowment investments	84,500	72,800
Capital campaign and project expenses	<u>(348,962)</u>	<u>(45,675)</u>
Net cash used in investing activities	<u>(652,244)</u>	<u>(786,445)</u>
Cash flows from financing activities:		
Proceeds from (payments of) note payable, bank	(800,000)	(200,000)
Proceeds of PPP loan	261,613	238,342
Contributions collected for capital activities	<u>1,080,473</u>	<u>742,071</u>
Net cash provided by financing activities	<u>542,086</u>	<u>780,413</u>
Net increase (decrease) in cash and cash equivalents	65,362	(372,095)
Cash and cash equivalents, beginning of year	<u>1,190,727</u>	<u>1,562,822</u>
Cash and cash equivalents, end of year	<u>\$ 1,256,089</u>	<u>\$ 1,190,727</u>
Supplemental disclosures of cash flows information is as follows		
Cash paid during the year for :		
Interest	\$ 251,980	\$ 276,307

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.

The Museum owns its Vineyard Haven campus comprised of an historic marine hospital and three adjacent properties. It also owns and operates programs at the Cooke House & Legacy Gardens in Edgartown. Additionally, the Museum oversees visitor services at the Edgartown Lighthouse owned by the Town of Edgartown, and EastChop Lighthouse owned by the U.S. Coast Guard. The Museum offers programs and exhibitions on-site and on-line using its vast collection of art, artifacts, objects, literary works and documents. Combined with its ongoing collections program, the Museum presents a broad grasp of history's enduring importance and its central role in explaining our present day.

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 original purpose of the bank loan was 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 repayments the level of borrowing availability was reduced to \$7,800,000 by the end of 2020. At the end of 2021 there was \$6,000,000 in borrowings outstanding.

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 an historic home and garden to be known as the Cooke House and Legacy Gardens.

Impact of COVID-19 Pandemic - 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. Focus quickly shifted to providing exhibits, education and programming in a virtual format for the community. The Museum reopened for the 2020 summer season in stages with the outdoor campus welcoming visitors in early July and the Museum buildings opening with appropriate pandemic protocols in early August. Even so, Museum activity was dramatically affected with less overall island activities, fewer programs and exhibits, lower attendance and reduced revenues. In this environment the Museum took several important steps which helped to mitigate the impact on cash flow – tightly controlled expenses and capital spending and obtained the PPP loans described below. 2021 brought more visitors than 2020 to the Museum but the impact of the pandemic was still felt throughout the year.

Paycheck Protection Program - The Museum was granted a \$238,342 loan under the Paycheck Protection Program "PPP" administered by a Small Business Administration (SBA) approved partner in 2020 and a second PPP loan in early 2021 in the amount of \$261,613. The loans were uncollateralized and fully guaranteed by the Federal government. The Museum initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Museum has recognized each loan as grant revenue in the year it was received as the full amount of the loan and accrued interest from the SBA was formally forgiven during each year.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - DESCRIPTION OF ORGANIZATION (Continued)

Description of activities

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

Exhibits - The Museum displays eight permanent exhibits and offers 12-15 rotating, temporary exhibitions annually. Additionally, there are a number of other permanent installations in the buildings and across the Vineyard Haven campus for visitors to enjoy.

Programming - The Museum offers year-round programming in-person and virtually for every member of the family. Talks, panel discussions, demonstrations, musical performances, poetry readings, family programs, films, and kid's activities are just a sampling of what the public can enjoy. In addition, many programs are recorded and made available online.

Publications - The Museum produces a scholarly journal, *the MVM Quarterly* throughout the year. The goal of all Museum publications are to foster knowledge and stimulate interest in Vineyard history. In addition, the Museum periodically publishes catalogs in conjunction with major exhibitions.

Education - The Museum's education program is focused on partnerships with all Island schools and offers field trips and classroom visits to students from pre-K through high school. Inspiration for all curriculum units are aligned to Massachusetts common core standards and draw from the Museum's collection of artifacts, photographs, primary source documents, maps, journals and oral histories.

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.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020, from which the summarized information was derived.

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 and cash equivalents

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.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Inventories

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

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 only donor restricted endowment funds. 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.

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 mutual funds 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.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

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 mutual funds 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 donor 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.

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.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions, gifts, grants (continued)

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 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. 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.

Management periodically evaluates the basis on which costs are allocated.

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 expense was \$46,841 and \$70,031 in 2021 and 2020, respectively.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 - RISKS AND UNCERTAINTIES

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad impact on commerce and financial markets around the world. The Museum has closely monitored this situation and made changes to its operations to respond to the situation. The extent of the impact of COVID-19 on the Museum's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and its impacts on the Museum's visitors and employees, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Museum's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

4 - 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, 2021 and 2020 are:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 1,256,089	\$ 1,190,727
Contributions receivable, net	428,567	811,118
Other assets	-	-
Endowment investments	<u>3,002,156</u>	<u>2,811,146</u>
Total financial assets	4,686,812	4,812,991
Less: Financial assets held to meet donor-imposed restrictions:		
Purpose-restricted net assets	81,766	423,320
Capital restricted net assets	447,462	811,118
Donor-restricted endowment funds	3,002,156	2,811,146
Less: Financial assets not available within one year:		
Contributions receivable - operating	<u>-</u>	<u>20,000</u>
Amount available for general expenditures within one year	<u>\$ 1,155,428</u>	<u>\$ 747,407</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 (\$3,002,156, of which \$2,187,433 is the original gifts). 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)

5 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of:

	<u>2021</u>	<u>2020</u>
With donor restrictions		
Operating - Lighthouse access	\$ -	\$ 30,000
Operating - Education programs	-	67,000
Operating - Cooke House & Legacy Gardens	1,000	73,546
Capital campaign	<u>453,375</u>	<u>679,683</u>
	454,375	850,229
Less: Unamortized discount	<u>25,808</u>	<u>39,111</u>
	<u>\$ 428,567</u>	<u>\$ 811,118</u>

As of December 31, 2021, the Museum had additional outstanding intentions to give of \$207,500 through letters of intent or pledges with certain specified conditions, which are not included above.

As of December 31, 2021, pledges are expected to be received according to the following schedule:

	<u>Operating</u>	<u>Capital Campaign</u>
Within one year	\$ 1,000	\$ 238,475
One to five years	<u>-</u>	<u>214,900</u>
	<u>\$ 1,000</u>	<u>\$ 453,375</u>

6 - ENDOWMENT INVESTMENTS

Endowment investments are presented in the financial statements at fair value and are comprised of the following:

	<u>2021</u>	<u>2020</u>
Mutual funds	<u>\$ 3,002,156</u>	<u>\$ 2,811,146</u>

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

	<u>2021</u>	<u>2020</u>
Donor restricted endowment funds		
Unappropriated return	\$ 814,723	\$ 623,713
Original gifts	<u>2,187,433</u>	<u>2,187,433</u>
Total	<u>\$ 3,002,156</u>	<u>\$ 2,811,146</u>

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

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 112,112	\$ 94,382
Investment gains	<u>163,398</u>	<u>240,950</u>
	<u>\$ 275,510</u>	<u>\$ 335,332</u>

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - ENDOWMENT INVESTMENTS (Continued)

Changes in endowment investments are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investments, December 31, 2019	\$ -	\$ 2,483,614	\$ 2,483,614
Investment return:			
Interest and dividends	-	94,382	94,382
Investment gains (realized and unrealized)	-	240,950	240,950
Total investment return	-	335,332	335,332
Additions	-	65,000	65,000
Appropriation for operations	-	(72,800)	(72,800)
Endowment investments, December 31, 2020	-	2,811,146	2,811,146
Investment return:			
Interest and dividends	-	112,112	112,112
Investment gains (realized and unrealized)	-	163,398	163,398
Total investment return	-	275,510	275,510
Additions	-	-	-
Appropriation for operations	-	(84,500)	(84,500)
Endowment investments, December 31, 2021	\$ -	\$ 3,002,156	\$ 3,002,156

7 - PROPERTY AND EQUIPMENT

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

	Estimated Useful Lives	2021	2020
Land	-	\$ 2,154,333	\$ 2,154,333
Historic buildings	-	177,768	177,768
Buildings and improvements	7 - 31 years	21,158,771	21,158,771
Equipment and furniture	3 - 10 years	1,940,442	1,943,450
Construction in progress	-	669,173	393,503
		26,100,487	25,827,825
Less: Accumulated depreciation		3,261,577	2,281,378
		<u>\$ 22,838,910</u>	<u>\$ 23,546,447</u>

Depreciation for property and equipment was \$983,207 and \$960,870 in 2021 and 2020, respectively.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - 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 2021 and 2020 the Museum repaid \$800,000 and \$200,000, respectively, resulting in an outstanding balance of \$6,000,000 and \$6,800,000 as of December 31, 2021 and 2020, respectively. The balance of the loan is payable in full in July, 2022. Interest is payable monthly at a fixed rate of 3.99%. The Museum expects that the loan will be renewed during 2022 and has classified the balance as long-term debt.

9 - NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2021 and 2020, net assets with donor restrictions are available for the following purposes or periods:

	<u>2021</u>	<u>2020</u>
Purpose restrictions, available for spending:		
Capital Campaign	\$ -	\$ 282,293
Other capital items including Cooke House & Legacy Gardens	18,895	114,626
Other including educational programs	<u>81,766</u>	<u>46,401</u>
Total purpose restricted net assets	<u>100,661</u>	<u>443,320</u>
Time restrictions:		
Contributions receivable, which are unavailable for spending until due, some of which are also subject to purpose and endowment restrictions	<u>428,567</u>	<u>811,118</u>
Endowment funds, which must be appropriated by the Board of Directors before use:		
Original gifts	2,187,433	2,187,433
Unappropriated return	<u>814,723</u>	<u>623,713</u>
Total endowment funds managed by the Museum	<u>3,002,156</u>	<u>2,811,146</u>
Total net assets with donor restrictions	<u>\$ 3,531,384</u>	<u>\$ 4,065,584</u>

During 2021, 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:

Appropriation of endowment investment return	\$ 84,500
Educational programs	50,000
Oral History and book publishing	11,715
Cooke House & Legacy Gardens project	305,508
Other projects	32,130
Other programs	<u>81,291</u>
	565,144
Capital Campaign activities	
Completion of capital projects	964,805
Capital campaign and project expenses	345,962
Appropriation from capital campaign for operations	<u>-</u>
	<u>\$ 1,875,911</u>

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

10 - GRANT INCOME

In response to the COVID-19 pandemic, the Paycheck Protection Program (PPP) was established under the CARES Act and administered by the SBA. Organizations who met the eligibility requirements set forth by the PPP could qualify for PPP loans. If the loan proceeds are fully utilized to pay qualified expenses, the full principal amount of the PPP loan, along with any accrued interest, may qualify for loan forgiveness, subject to potential reduction based on the level of full-time employees maintained by the organization. In January 2021 the Museum received a loan of \$261,613 under the second round of the PPP and in April 2020, the Museum received a loan of \$238,342 under the first round of the PPP. The loans bear interest at 1.0%, with principal and interest payments deferred for the first six months of the loan. After that, the loan and interest would be paid back over a period of 18 months, if the loan is not forgiven under the terms of the PPP.

When it applied for the loans, the Museum believed it would qualify to have the loan forgiven under the terms of the PPP and considered the loan to be substantively a conditional government grant. The Museum believes it has satisfied the requirements for forgiveness of the loan and has received forgiveness from the SBA, the granting authority, for both loans. Accordingly, the Museum recognized grant income for the full amount of the PPP loans, \$261,613 in 2021 and \$238,342 in 2020.

11 - STATEMENT OF CASH FLOWS

As of December 31, 2021, accounts payable and accrued liabilities included \$325,458 related to retainage for the construction project. This balance will be reflected as a use of cash for the purchase of property and equipment when it is disbursed.

12 - FAIR VALUE MEASUREMENTS

The Museum reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - FAIR VALUE MEASUREMENTS (Continued)

When available, the Museum measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that The museum is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The primary uses of fair value measures in the Museum's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of endowment investments.

Determination of fair value

Following is a description of the valuation methodologies used for items measured at fair value. There have been no changes in the methodologies used during the year ended December 31, 2021.

Mutual funds: Determined by the published NAV per unit at the end of the last trading day of the year, which is the basis of transactions at that date.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although The Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Museum's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2021 as follows:

	December 31, 2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	<u>\$ 3,002,156</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,002,156</u>

There were no significant transfers between the levels during the year. The Museum's policy is to recognize transfers in and out of the levels at the end of the fiscal year; interim changes in the availability of fair value inputs are not recognized.

The Museum does not measure any liabilities at fair value on a recurring or non-recurring basis on the statement of financial position.

13 - 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.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - 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, 2021, the Museum had paid \$12,785,162 on the contract. Accounts payable and accrued liabilities includes \$325,458 for the contract's retainage as of December 31, 2021.

15 - RELATED-PARTY TRANSACTIONS

Contributions include \$853,015 and \$329,309 of amounts received from Board members in 2021 and 2020, respectively. Contributions receivable from Board members were \$50,000 in 2021.

16 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 15, 2022, 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.

17 - RECLASSIFICATION

Certain amounts in the 2020 summarized comparative information has been reclassified to conform with the 2021 presentation. Such reclassifications had no effect on the change in net assets as previously reported.,