

DANFORTH MUSEUM CORPORATION

AUDITED FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2011 AND 2010

DANFORTH MUSEUM CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2011 AND 2010

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E.L. MANN, PC
CERTIFIED PUBLIC ACCOUNTANTS

Accountants, Auditors, and Business Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Danforth Museum Corporation
Framingham, Massachusetts

We have audited the accompanying statements of financial position of Danforth Museum Corporation (a Massachusetts not-for-profit corporation) as of August 31, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Danforth Museum Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Danforth Museum Corporation at August 31, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Framingham, Massachusetts

January 5, 2012

DANFORTH MUSEUM CORPORATION
STATEMENT OF FINANCIAL POSITION
August 31, 2011

ASSETS

	Unrestricted Operating	Temporarily Restricted	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 48,694	113,815	\$ 162,509
Accounts receivable	10,758	-	10,758
Gifts and grants receivable	35,000	20,000	55,000
Prepaid expenses	35,649	-	35,649
TOTAL CURRENT ASSETS	130,101	133,815	263,916
PROPERTY AND EQUIPMENT			
Furniture and fixtures	55,489	-	55,489
Museum school equipment	39,614	-	39,614
Museum equipment	12,442	-	12,442
Computer equipment and software	102,601	-	102,601
Leasehold improvements	416,776	-	416,776
Total	626,922	-	626,922
Accumulated depreciation	(371,568)	-	(371,568)
NET PROPERTY AND EQUIPMENT	255,354	-	255,354
NON-CURRENT GRANT RECEIVABLE	-	20,000	20,000
TOTAL ASSETS	\$ 385,455	153,815	\$ 539,270

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable	\$ 35,532	-	\$ 35,532
Accrued expenses	20,684	-	20,684
Line of credit	24,445	-	24,445
Deferred revenue	101,181	-	101,181
TOTAL CURRENT LIABILITIES	181,842	-	181,842
NET ASSETS	203,613	153,815	357,428
TOTAL LIABILITIES AND NET ASSETS	\$ 385,455	153,815	\$ 539,270

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

DANFORTH MUSEUM CORPORATION
STATEMENT OF FINANCIAL POSITION
August 31, 2010

ASSETS

	Unrestricted Operating	Temporarily Restricted	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 73,519	105,036	\$ 178,555
Accounts receivable	7,738	-	7,738
Gifts and grants receivable	8,314	25,778	34,092
Prepaid expenses	32,264	-	32,264
	121,835	130,814	252,649
PROPERTY AND EQUIPMENT			
Furniture and fixtures	55,489	-	55,489
Museum school equipment	39,614	-	39,614
Museum equipment	12,442	-	12,442
Computer equipment and software	101,296	-	101,296
Leasehold improvements	369,777	-	369,777
Total	578,618	-	578,618
Accumulated depreciation	(341,869)	-	(341,869)
	236,749	-	236,749
NON-CURRENT GRANT RECEIVABLE			
	-	10,000	10,000
	358,584	140,814	499,398

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable	\$ 45,484	-	\$ 45,484
Accrued expenses	30,246	-	30,246
Note payable	31,151	-	31,151
Deferred revenue	90,505	-	90,505
	197,386	-	197,386
	161,198	140,814	302,012
NET ASSETS			
	358,584	140,814	499,398

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

DANFORTH MUSEUM CORPORATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended August 31, 2011

	<u>Unrestricted Operating</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUE AND SUPPORT			
Grants and contributions	\$ 371,060	93,968 \$	465,028
Special event revenue	78,377	-	78,377
Admissions and programs	35,244	-	35,244
Museum school tuition	553,546	-	553,546
Gift shop sales	41,655	-	41,655
Membership income	77,326	-	77,326
Investment income	475	-	475
In-kind contributions: Rent	340,000	-	340,000
Net Assets released from restrictions - renovations	57,649	(57,649)	-
Net Assets released from restrictions - other	23,318	(23,318)	-
TOTAL OPERATING REVENUE AND SUPPORT	<u>1,578,650</u>	<u>13,001</u>	<u>1,591,651</u>
OPERATING EXPENSES			
Program costs	<u>1,094,387</u>	<u>-</u>	<u>1,094,387</u>
Supporting services			
Fundraising	166,697	-	166,697
Management and general	275,151	-	275,151
Total supporting services	<u>441,848</u>	<u>-</u>	<u>441,848</u>
TOTAL OPERATING EXPENSES	<u>1,536,235</u>	<u>-</u>	<u>1,536,235</u>
INCREASE IN NET ASSETS	42,415	13,001	55,416
NET ASSETS AT BEGINNING OF YEAR	<u>161,198</u>	<u>140,814</u>	<u>302,012</u>
NET ASSETS AT END OF YEAR	<u>\$ 203,613</u>	<u>153,815 \$</u>	<u>\$ 357,428</u>

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

DANFORTH MUSEUM CORPORATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended August 31, 2010

	<u>Unrestricted Operating</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUE AND SUPPORT			
Grants and contributions	\$ 289,297	49,014	\$ 338,311
Special event revenue	85,294	-	85,294
Admissions and programs	47,394	-	47,394
Museum school tuition	515,727	-	515,727
Gift shop sales	36,946	-	36,946
Membership income	68,970	-	68,970
Investment income	1,495	-	1,495
In-kind contributions: Rent	340,000	-	340,000
Net Assets released from restrictions - renovations	7,187	(7,187)	-
Net Assets released from restrictions	18,787	(18,787)	-
TOTAL OPERATING REVENUE AND SUPPORT	<u>1,411,097</u>	<u>23,040</u>	<u>1,434,137</u>
OPERATING EXPENSES			
Program costs			
Programs	987,946	-	987,946
Supporting services			
Fundraising	117,679	-	117,679
Management and general	290,471	-	290,471
Total supporting services	<u>408,150</u>	<u>-</u>	<u>408,150</u>
TOTAL OPERATING EXPENSES	<u>1,396,096</u>	<u>-</u>	<u>1,396,096</u>
INCREASE IN NET ASSETS	15,001	23,040	38,041
NET ASSETS AT BEGINNING OF YEAR	<u>146,197</u>	<u>117,774</u>	<u>263,971</u>
NET ASSETS AT END OF YEAR	<u>\$ 161,198</u>	<u>140,814</u>	<u>\$ 302,012</u>

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

DANFORTH MUSEUM CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended August 31,

	2011	2010
OPERATING ACTIVITIES		
Changes in net assets	\$ 55,416	\$ 38,041
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	29,699	32,531
Changes in operating assets and liabilities:		
Accounts, gifts and grants receivable	(33,928)	(5,206)
Prepaid expenses	(3,385)	(11,846)
Accounts payable and accrued expenses	(19,514)	27,551
Deferred revenue	10,676	1,620
NET CASH PROVIDED BY OPERATING ACTIVITIES	38,964	82,691
INVESTING ACTIVITIES:		
Acquisition of property and equipment	(48,304)	(1,250)
NET CASH FOR INVESTING ACTIVITIES	(48,304)	(1,250)
FINANCING ACTIVITIES:		
Net activity on line of credit	(6,706)	(8,088)
NET CASH FOR FINANCING ACTIVITIES	(6,706)	(8,088)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,046)	73,353
Cash and cash equivalents, beginning of period	178,555	105,202
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 162,509	\$ 178,555
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 1,640	\$ 2,053

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

DANFORTH MUSEUM CORPORATION

Notes to Financial Statements

August 31, 2011 and 2010

A. NATURE OF ACTIVITIES

Danforth Museum Corporation (the "Museum"), a not-for-profit organization located in Framingham, Massachusetts, was incorporated in the Commonwealth of Massachusetts in 1973 to provide artistic, cultural, and educational programs and activities to the residents of Framingham and surrounding communities.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Financial statement presentation – The financial statements have been prepared on the accrual basis of accounting in accordance with standards promulgated by the Financial Accounting Standards Board (FASB) for general purpose financial statements of not-for-profit organizations. These standards require that information regarding financial position and activities be classified into three net asset categories: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition they require that unconditional promises to give (pledges) are recorded as receivables and revenues and that the organization distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions. Net asset categories are described as follows:

Unrestricted net assets include resources that are neither permanently nor temporarily restricted by donor stipulation.

Temporarily restricted net assets include contributions with donor-imposed restrictions, which have not been met. Amounts released from restriction during the year of contribution are classified as unrestricted in the accompanying financial statements.

Permanently restricted net assets include contributions that require, by donor restrictions, that the principle be invested in perpetuity and only the income be made available for operations.

The Museum does not have permanently restricted net assets at August 31, 2011 and 2010.

2. Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.
3. Cash and cash equivalents – For financial statement purposes the Museum considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

DANFORTH MUSEUM CORPORATION

Notes to Financial Statements

August 31, 2011 and 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Included in cash are amounts received from the Marks Fund, which are required to be kept in a separate bank account, reserved for the acquisition and preservation of the Museum's collections. Restricted cash, included in temporarily restricted net assets is approximately \$10,950 as of August 31, 2011 and 2010.

4. Accounts receivable – The Museum performs ongoing credit evaluations of their customers' financial condition and generally does not require collateral on accounts receivable arising in the normal course of business. When considered necessary by management, a provision for an allowance for uncollectible accounts is included in the financial statements. At August 31, 2011 and 2010, management has concluded that no allowance for doubtful accounts is required.
5. Property, improvements, equipment, and depreciation – Property and equipment are recorded at cost, if purchased, or, if donated, at fair market value on the date of donation. Items in excess of \$1,000 are capitalized while expenditures for maintenance and repairs are charged to expenses as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to forty years.
6. Permanent collection additions – The Museum's permanent collections, acquired through purchase and donation, are not recognized as assets in the accompanying financial statements. Purchases of collection items are recorded in the year in which the items were acquired as decreases in unrestricted net assets. Contributed collection items are not reflected in the financial statements.

During the year ended 2011 the Museum did not purchase works of art for its permanent collection. During the year ended 2010 acquisition costs of approximately \$1,000 were incurred.

7. Revenue recognition – Contributions and grants received, including receipts of unconditional promises to give, are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending upon the existence of donor restrictions. When a restriction expires or the specific purpose is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions of donated non-cash assets are recorded at their fair values in the period received.

Temporarily restricted contributions that meet the qualifying purposes within the same fiscal year they are received are included in unrestricted contributions.

Tuition fees are recorded as deferred revenue when received and recognized when services are performed as the corresponding classes commence.

DANFORTH MUSEUM CORPORATION

Notes to Financial Statements

August 31, 2011 and 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Memberships are recognized as revenue ratably over the period during which the member is entitled to receive services, beginning with the month the dues are received.

8. Income Taxes – The Museum is exempt from federal income taxation as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. Contributions to the Museum are deductible by donors within the requirements of the Internal Revenue Code.

Generally accepted accounting principles as practiced in the United States require an entity to assess the probability that a tax position has a “more likely than not” (MLTN) sustainability after review by tax authorities. If a tax position is deemed not to meet this threshold, any unrecognized tax benefits and costs are estimated and recognized. Interest and penalties, if any, related to assessments by tax authorities will be classified as a component of interest expense and other expense, respectively, in the statement of activities.

A tax position may be considered as taken any time a taxpayer chooses amongst alternatives that affect the amount of their tax obligations and include for example: tax exempt status; status as a pass-through entity (S Corporations, etc.); decisions made in the process of conforming with tax laws; decisions not to file in certain jurisdictions; allocation of income between jurisdictions and the characterization of income or expenses. Tax returns are routinely open for review by the tax authorities for three years from their due date. In certain circumstances the statute of limitations may remain open indefinitely. The Museum has been notified by the Internal Revenue Service that it meets the qualifications to be classified as a tax exempt entity under section 501(c)(3) of the Internal Revenue Code. Since the continuance of this status is based upon continuing qualification, the Museum has identified this as a tax position. However, it has determined that this tax position meets MLTN sustainability and does not result in an uncertainty requiring recognition.

Income from activities not directly related to the Museum’s tax-exempt purpose is subject to taxation as unrelated business income. During the years ended 2011 and 2010, the Museum did not incur any income taxes.

9. Expense allocation – Expenses related directly to a program are charged to that program. Other expenses are allocated based upon management’s estimate of the percentage attributable to each program.
10. Advertising – Advertising costs are expensed as incurred and approximated \$5,800 and \$2,600 for the years ended August 31, 2011 and 2010, respectively.

DANFORTH MUSEUM CORPORATION

Notes to Financial Statements

August 31, 2011 and 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Reclassifications – Certain amounts in the August 31, 2010 financial statements have been reclassified to conform to the current presentation. Net assets and changes in net assets were not affected by these reclassifications.

C. LINE OF CREDIT

The Museum maintains a revolving line of credit, due on demand and renewable annually in September, allowing for maximum borrowings of \$100,000, secured by substantially all assets of the Museum. The line requires minimum monthly payments of 2% of outstanding principal balance plus a variable interest rate of 1.5% over the prime rate with a floor of 5.75%. The interest rate at August 31, 2011 and 2010 was 5.75%. Interest expense for the years ended 2011 and 2010 was \$1,640 and \$2,053 respectively.

D. DEFERRED REVENUE

Deferred revenue related to the following as of August 31:

	<u>2011</u>	<u>2010</u>
Membership	\$ 52,378	37,236
Museum school tuition	<u>48,803</u>	<u>53,269</u>
	<u>\$ 101,181</u>	<u>90,505</u>

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of August 31:

	<u>2011</u>	<u>2010</u>
Gallery and school renovations	\$ 17,492	71,991
Acquisitions	10,952	9,823
Development and membership	45,000	35,000
Education and outreach programs	7,426	20,000
Exhibits	29,945	-
Time restrictions	<u>43,000</u>	<u>4,000</u>
	<u>\$ 153,815</u>	<u>140,814</u>

DANFORTH MUSEUM CORPORATION

Notes to Financial Statements

August 31, 2011 and 2010

TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by the donors as follows as of August 31:

	<u>2011</u>	<u>2010</u>
Gallery and school renovations	\$ 57,649	7,187
Acquisitions and preservation	144	2,037
Development and membership	2,000	4,500
Education and outreach programs	<u>21,174</u>	<u>12,250</u>
	<u>\$ 80,967</u>	<u>25,974</u>

F. RETIREMENT PLAN

The Museum maintains a retirement plan under Section 403(b) of the Internal Revenue Code. All employees who have completed one year of service are eligible to participate. The Museum makes a matching contribution of 1% of participating employees' compensation. Matching contributions for the years ended 2011 and 2010 were \$2,096 and \$1,536, respectively.

G. IN-KIND CONTRIBUTIONS

The Museum occupies space in a building owned by the Town of Framingham as a tenant at will. Rent, valued at \$340,000 annually, is provided by the Town as an in-kind contribution.

Additionally, during the years ended August 31, 2011 and 2010 the Museum accepted donations of art with an aggregated estimated value of \$165,000 and \$148,000, respectively. No value is reflected in the accompanying financial statements for the in-kind contributions of art.

H. RELATED PARTY TRANSACTIONS

The Museum received cash contributions from board members and affiliates of board members in the amount of approximately \$122,700 and \$104,600 during the fiscal years ended 2011 and 2010, respectively.

DANFORTH MUSEUM CORPORATION

Notes to Financial Statements

August 31, 2011 and 2010

I. THE FOUNDATION FOR METROWEST

The Museum has an agreement with The Foundation for Metrowest (the "Foundation"), formerly Crossroads Community Foundation, Inc. for the Danforth Museum of Art Fund (the "Fund"). The Foundation holds, manages, invests, and reinvests for the Fund. It collects income and pays and disburses distributable income, at the discretion of the Board of Trustees. The principal of the Fund is only for designated, restricted purposes. The value of the Fund was approximately \$21,000 at August 31, 2011 and 2010. The Museum received income from the Fund of approximately \$1,100 for the year ended August 31, 2010. A similar amount is available as of August 31, 2011.

J. CONCENTRATIONS, RISKS AND UNCERTAINTIES

1. Concentrations of credit risks - Financial statement instruments which potentially subject the Museum to concentrations of credit risk consist primarily of cash and accounts receivable. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the Museum's customer base.
2. Cash - On occasions the Museum's cash balances at financial banking institutions may exceed the federal insurance limits (FDIC). Management monitors the financial condition of its banking institutions, along with its cash balances, to keep this potential risk at a minimum.
3. Concentrations - At August 31, 2011 gifts and grants receivable consisted of institutional grants of \$40,000 and \$10,000 and a gift from a member of the Board of Trustees of \$25,000. At August 31, 2010, two institutions provided grants of \$20,000 and \$15,000.

K. SUBSEQUENT EVENTS

The Museum has evaluated subsequent events through January 5, 2012, the date on which the financial statements were available to be issued.