

MARTHA'S VINEYARD MUSEUM, INC.

***FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULE***

YEAR ENDED DECEMBER 31, 2011

AND

INDEPENDENT AUDITOR'S REPORT

MARTHA'S VINEYARD MUSEUM, INC.

FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULE

YEAR ENDED DECEMBER 31, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Martha's Vineyard Museum, Inc.

We have audited the accompanying statement of financial position of the Martha's Vineyard Museum, Inc. as of December 31, 2011 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative financial information has been derived from the Museum's 2010 financial statements and, in our report dated June 17, 2011, we expressed an unqualified opinion on those statements.

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 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 Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 the Martha's Vineyard Museum, Inc. as of December 31, 2011 and the results of its activities and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bollus Lynch, LLP

Worcester, Massachusetts
May 11, 2012

MARTHA'S VINEYARD MUSEUM, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011

(With Summarized Financial Information for 2010)

	<u>2011</u>	<u>2010</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,066,553	\$ 440,929
Accounts receivable	378	7,305
Pledges receivable	238,850	162,500
Inventories	36,686	31,353
Prepaid expenses and other assets	<u>3,070</u>	<u>5,657</u>
Total current assets	1,345,537	647,744
Interest bearing deposits, bank	149,359	148,578
Pledges receivable	233,995	390,635
Loan acquisition costs	-	6,329
Property and equipment, net	<u>4,093,563</u>	<u>2,361,259</u>
	<u>\$ 5,822,454</u>	<u>\$ 3,554,545</u>
Liabilities and Net Assets		
Current liabilities		
Note payable, bank	\$ -	\$ 20,518
Accounts payable and accrued liabilities	<u>36,736</u>	<u>38,690</u>
Total current liabilities	36,736	59,208
Long-term note payable, bank	<u>-</u>	<u>555,278</u>
	<u>36,736</u>	<u>614,486</u>
Net assets		
Unrestricted		
Operating	469,737	(128,783)
Designated for collection accessions	5,897	5,937
Plant	4,093,563	985,171
Temporarily restricted	1,107,945	1,969,158
Permanently restricted	<u>108,576</u>	<u>108,576</u>
Total net assets	<u>5,785,718</u>	<u>2,940,059</u>
	<u>\$ 5,822,454</u>	<u>\$ 3,554,545</u>

See accompanying notes to financial statements.

MARTHA'S VINEYARD MUSEUM, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011
(With Summarized Financial Information for 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2011	2010
Operating activities:					
Revenue, gains, and other support					
Membership dues	\$ 72,880	\$ -	\$ -	\$ 72,880	\$ 71,952
Admissions and fees	36,027	-	-	36,027	38,931
Contributions	221,533	320,079	-	541,612	959,012
Grant income	37,625	72,936	-	110,561	173,435
Sales	26,411	-	-	26,411	24,326
Special fund raising events	166,577	-	-	166,577	191,607
Lighthouse admissions and fees	90,992	-	-	90,992	55,347
Interest and other income	1,495	-	-	1,495	1,441
Net assets released from restriction					
Satisfaction of purpose restrictions	453,476	(453,476)	-	-	-
Total	<u>1,107,016</u>	<u>(60,461)</u>	<u>-</u>	<u>1,046,555</u>	<u>1,516,051</u>
Operating expenses					
Program services	614,976	-	-	614,976	702,480
Supporting services					
General and administrative	360,885	-	-	360,885	362,127
Membership and fund raising	305,528	-	-	305,528	253,061
Total	<u>1,281,389</u>	<u>-</u>	<u>-</u>	<u>1,281,389</u>	<u>1,317,668</u>
Change in net assets from operating activities	<u>(174,373)</u>	<u>(60,461)</u>	<u>-</u>	<u>(234,834)</u>	<u>198,383</u>
Non-operating activities					
Satisfaction of capital restrictions	3,881,245	(3,881,245)	-	-	-
Capital campaign activities					
Capital campaign contributions	-	3,350,329	-	3,350,329	-
Capital campaign interest	-	9,322	-	9,322	2,633
Capital campaign expenses	-	(279,158)	-	(279,158)	-
Change in net assets from non-operating activities	<u>3,881,245</u>	<u>(800,752)</u>	<u>-</u>	<u>3,080,493</u>	<u>2,633</u>
Change in net assets	3,706,872	(861,213)	-	2,845,659	201,016
Net assets, beginning of year	<u>862,325</u>	<u>1,969,158</u>	<u>108,576</u>	<u>2,940,059</u>	<u>2,739,043</u>
Net assets, end of year	<u>\$ 4,569,197</u>	<u>\$ 1,107,945</u>	<u>\$ 108,576</u>	<u>\$ 5,785,718</u>	<u>\$ 2,940,059</u>

See accompanying notes to financial statements.

MARTHA'S VINEYARD MUSEUM, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011

(With Summarized Financial Information for 2010)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,845,659	\$ 201,016
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	62,831	60,243
Revenue restricted for capital activities	(3,350,329)	-
Loss on sale of property	50,020	-
Disposition of capital assets	102,139	-
(Increase) decrease in operating assets:		
Accounts receivable	6,927	3,494
Pledges receivable	80,290	(281,336)
Inventories	(5,333)	(3,016)
Prepaid expenses and other assets	2,587	(552)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(1,954)	(4,703)
Total adjustments	<u>(3,052,822)</u>	<u>(225,870)</u>
Net cash used in operating activities	<u>(207,163)</u>	<u>(24,854)</u>
Cash flows from investing activities:		
Expenditures for property, plant, and equipment	(2,911,105)	(21,626)
Proceeds from the sale of property	970,140	-
Change in interest bearing deposits, bank	(781)	969
Expenditures for loan acquisition costs	<u>-</u>	<u>(6,329)</u>
Net cash used in investing activities	<u>(1,941,746)</u>	<u>(26,986)</u>
Cash flows from financing activities:		
Receipt of capital grants and contributions	3,350,329	-
Net borrowings (payments) on note payable, bank	<u>(575,796)</u>	<u>164,962</u>
Net cash provided by financing activities	<u>2,774,533</u>	<u>164,962</u>
Net decrease in cash and cash equivalents	625,624	113,122
Cash and cash equivalents, beginning of year	<u>440,929</u>	<u>327,807</u>
Cash and cash equivalents, end of year	<u>\$ 1,066,553</u>	<u>\$ 440,929</u>
Supplemental disclosures of cash flows information is as follows		
Cash paid during the year for :		
Interest	\$ 20,383	\$ 23,562

See accompanying notes to financial statements.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Dukes County Historical Society, Inc. was organized 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 Director's changed the corporate name to Martha's Vineyard Museum, Inc. (the "Museum"). The Society is a non-profit organization organized for the purpose of collecting, preserving and publishing, sharing historical and relevant matters relating to the County of Dukes County.

The Society consists of property in Tisbury and the Edgartown Campus including the Cooke House, the Pease House, the Huntington Library/Foster Gallery, the Gay Head Lens, the Carriage/Boat Shed and the Try Works reproduction. The Society also has stewardship of the Gay Head, East Chop and Edgartown 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 and Gallery also offer a broad range of adult and children's educational programs, exhibits and events to members and the general public.

Method of accounting

The financial statements of the Museum have been prepared on the accrual basis 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 in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses. Actual results could differ from those estimates.

Financial statement presentation

The Museum presents information regarding its financial position and activities according to three classifications of net assets described as follows:

Unrestricted - All resources over which the governing board has discretionary control. 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.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently Restricted - Endowment resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. Investment income may be either an unrestricted or temporarily restricted resource when earned, determined according to the gift instruments.

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 Society's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Organization has evaluated the financial statement impact of subsequent events occurring through May 11, 2012, the date that the financial statements were available to be issued.

Cash

The Museum maintains its operating cash in bank deposit accounts which, at times, may exceed federally insured limits. However, under the Dodd-Frank financial regulatory reform legislation the Museum's noninterest-bearing transaction accounts are fully insured without limit effective December 31, 2010 until January 1, 2013.

Pledges receivable

Pledges are recorded as receivables in the year the pledge is made. Pledges for support of current operations are recorded as unrestricted support. Pledges for support of future operations, capital activities, and endowment are recorded as temporarily restricted or permanently restricted support. Subsequent write-offs of pledges are recorded as negative contribution support in the period the pledge is considered uncollectible.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an appropriate interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not recognized until such time as the conditions are substantially met.

Inventories

Inventories, which consist of gift shop items, are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Temporary investments

The Museum receives marketable securities as contributions. An investment account is maintained only to liquidate these contributions.

Property and equipment

Property and equipment are carried at cost, or if donated at fair value as of the date of the gift. Depreciation and amortization are computed using the straight-line method.

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 unrestricted net assets.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions, gifts, grants

Contributions received are recorded as unrestricted or temporarily restricted support depending on the existence and nature of any donor restrictions. Contributions may include actual gifts or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Restricted gifts are required to be reported as restricted support in the period received and are then reclassified to unrestricted net assets upon satisfaction of the donor restriction.

Contributions of assets other than cash are recorded at their fair value in the period received. Contributions of donated services that create or enhance the non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. No amounts have been reflected in the financial statements for donated services as the Society pays for most services requiring special expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Museum with its programs. Museum volunteers provide services as a guide, librarian, publication editor, cataloguing, and fund-raising services throughout the year.

Functional expenses

The costs of providing the various programs and other activities of the Museum have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to the program services and supporting services benefited.

Description of program and supporting services

The following programs 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)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Membership development - Encompasses the identification, cultivation, and expansion of the Museum's membership as the primary effort to promote preservation awareness and to increase public involvement in preservation activities.

Management and general - Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Museum's program strategy; maintain competent legal services for the program administration of the Museum; and manage the financial and budgetary responsibilities of the Society.

Advertising and promotion

All costs associated with advertising and promoting the Museum are expensed in the year incurred. Advertising and public relations expense was \$26,057 and \$21,333 in 2011 and 2010, respectively.

2 - PLEDGES RECEIVABLE

Pledges receivable consist of:

	<u>2011</u>	<u>2010</u>
Unrestricted		
Operating	\$ 349,231	\$ 429,500
Restricted		
Lighthouse access	120,000	130,000
Capital campaign	<u>42,101</u>	<u>42,101</u>
	511,332	601,601
Less: Unamortized discount	<u>38,487</u>	<u>48,466</u>
	<u>\$ 472,845</u>	<u>\$ 553,135</u>

As of December 31, 2011, pledges are expected to be received according to the following schedule:

Within one year	\$ 238,850
One to five years	202,482
Longer than five years	<u>70,000</u>
	<u>\$ 511,332</u>

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - PROPERTY AND EQUIPMENT

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

	Estimated Useful Lives	2011	2010
Land	-	\$ 1,379,032	\$ 1,154,192
Historic buildings	-	507,947	507,947
Buildings and improvements	7 - 31 years	1,109,916	1,109,913
Equipment and furniture	3 - 10 years	197,142	197,142
Construction in progress	-	<u>1,666,105</u>	<u>102,136</u>
		4,860,142	3,071,330
Less: Accumulated depreciation and amortization		<u>766,579</u>	<u>710,071</u>
		<u>\$ 4,093,563</u>	<u>\$ 2,361,259</u>

Depreciation and amortization for property, plant, and equipment was \$56,508 and \$60,243 in 2011 and 2010, respectively.

4 - LONG-TERM DEBT

The Museum had a \$700,000 ten year mortgage loan with a balance of \$555,278 as of December 31, 2010. Interest only, at a rate of 4.25%, was payable monthly until the mortgage maturity date of February 24, 2020. The interest was paid by a \$100,000 line of credit to carry the interest throughout the life of the loan with a balance of \$20,518 as of December 31, 2010. Interest for the line of credit was charged at the bank's prime rate with a floor of 4%. The mortgage was paid in full and the line was closed out during 2011.

5 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2011	2010
Capital Campaign	\$ 438,517	\$ 1,049,175
Educational programs	153,895	179,464
Administrative	14,591	152,956
Lighthouse access	87,216	97,216
Lighthouses	22,396	46,386
Film and book publishing	50,763	48,532
Future operations	<u>340,567</u>	<u>395,429</u>
	<u>\$ 1,107,945</u>	<u>\$ 1,969,158</u>

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - RESTRICTED NET ASSETS (Continued)

During 2011, 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	\$ 234,969
Educational Programs	87,572
Other Programs	<u>130,935</u>
	453,476
Capital Asset Activities	<u>3,881,245</u>
	<u>\$ 4,334,721</u>

6 - TAX-EXEMPT STATUS

The Museum qualifies as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax is required. Management annually reviews for uncertain tax positions along with any related interest and penalties and believes that the Museum has no uncertain tax positions that would have a material adverse effect, individually or in the aggregate upon the Museum's statement of financial position, or the related statements of activities, or cash flows. The Museum files income tax returns in the U.S. federal jurisdiction. The Association is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2007.

7 - RECLASSIFICATIONS

Certain amounts in the 2010 comparative totals have been reclassified to conform to the 2011 presentation. Such reclassifications had no effect on the change in net assets as previously reported.

SUPPLEMENTAL SCHEDULE

MARTHA'S VINEYARD MUSEUM, INC.

FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2011
(With Summarized Financial Information for 2010)

	Program	General and Administrative	Membership and Fund Raising	Totals	
				2011	2010
Salaries and wages	\$ 217,980	\$ 207,605	\$ 154,994	\$ 580,579	\$ 486,693
Employee benefits	19,924	26,620	13,879	60,423	49,519
Payroll taxes	17,079	16,627	13,608	47,314	39,569
Total personnel expenses	254,983	250,852	182,481	688,316	575,781
Accounting and legal	-	9,140	-	9,140	10,344
Advertising	22,965	3,092	-	26,057	21,333
Collection and exhibits	23,470	-	-	23,470	27,442
Contract services	5,052	6,734	5,448	17,234	59,802
Facility feasibility study	-	-	-	-	86,909
Cost of sales	11,426	-	-	11,426	11,784
Dues and subscriptions	150	1,876	-	2,026	3,680
Insurance					
Building and liability	-	10,757	-	10,757	11,069
Interest	-	18,891	-	18,891	23,562
Lighthouses	85,845	-	-	85,845	32,880
Occupancy					
Utilities	8,863	13,455	-	22,318	19,331
Repairs and maintenance	4,005	13,721	-	17,726	50,416
Printing, postage and mailing	7,817	1,235	10,188	19,240	24,289
Publications for membership	20,130	-	-	20,130	-
Programs and special events	101,138	1,042	101,932	204,112	251,549
Book publishing and royalties	-	-	-	-	935
Supplies	3,802	16,603	2,647	23,052	20,814
Telephone	-	6,823	-	6,823	7,556
Travel	-	-	-	-	2,405
Other	3,093	6,664	2,832	12,589	15,544
Total expenses before depreciation and amortization	552,739	360,885	305,528	1,219,152	1,257,425
Depreciation and amortization	62,237	-	-	62,237	60,243
	<u>\$ 614,976</u>	<u>\$ 360,885</u>	<u>\$ 305,528</u>	<u>\$ 1,281,389</u>	<u>\$ 1,317,668</u>

See accompanying independent auditor's report.