

MARTHA'S VINEYARD MUSEUM, INC.

***FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULE***

YEAR ENDED DECEMBER 31, 2012

AND

INDEPENDENT AUDITOR'S REPORT

MARTHA'S VINEYARD MUSEUM, INC.

FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULE

YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Martha's Vineyard Museum, Inc.
Edgartown, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Martha's Vineyard Museum, Inc. which comprise the statement of financial position as of December 31, 2012, and the related statement of activities and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Martha's Vineyard Museum, Inc. as of December 31, 2012, 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 audit 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.

Report on Summarized Comparative Information

We have previously audited Martha's Vineyard Museum, Inc.'s 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 11, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ballus Lynch, LLP

Worcester, Massachusetts
July 18, 2013

MARTHA'S VINEYARD MUSEUM, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012

(With Summarized Financial Information for 2011)

	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,117,677	\$ 1,066,553
Accounts receivable	16,584	378
Pledges receivable		
Board members	90,350	85,850
Others	88,032	153,000
Inventories	35,003	36,686
Prepaid expenses and other assets	-	3,070
	<u>1,347,646</u>	<u>1,345,537</u>
Interest bearing deposits, bank	-	149,359
Pledges receivable		
Board members	38,332	118,182
Others	125,399	115,813
Property and equipment, net	4,267,745	4,093,563
Collections	-	-
	<u>\$ 5,779,122</u>	<u>\$ 5,822,454</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	<u>\$ 48,446</u>	<u>\$ 36,736</u>
Net assets		
Unrestricted		
Operating	482,422	469,737
Designated for collection accessions	5,918	5,897
Plant	4,267,745	4,093,563
Temporarily restricted	866,015	1,107,945
Permanently restricted	108,576	108,576
	<u>5,730,676</u>	<u>5,785,718</u>
	<u>\$ 5,779,122</u>	<u>\$ 5,822,454</u>

See accompanying notes to financial statements.

MARTHA'S VINEYARD MUSEUM, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012
(With Summarized Financial Information for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2012	2011
Operating activities:					
Revenue, gains, and other support					
Membership dues	\$ 82,659	\$ -	\$ -	\$ 82,659	\$ 72,880
Admissions and fees	56,036	-	-	56,036	36,027
Contributions	224,735	209,604	-	434,339	541,612
Grant income	-	368,983	-	368,983	110,561
Sales	27,978	-	-	27,978	26,411
Special fund raising events	136,830	-	-	136,830	166,577
Lighthouse admissions and fees	132,829	-	-	132,829	90,992
Interest and other income	56	1,544	-	1,600	1,495
Net assets released from restriction					
Satisfaction of time restrictions	219,850	(219,850)	-	-	-
Satisfaction of purpose restrictions	207,882	(207,882)	-	-	-
Appropriation from Capital Campaign	157,615	-	-	157,615	-
Total	1,246,470	152,399	-	1,398,869	1,046,555
Operating expenses					
Program services	576,123	-	-	576,123	614,976
Supporting services					
General and administrative	368,152	-	-	368,152	360,885
Membership and fund raising	314,688	-	-	314,688	305,528
Total	1,258,963	-	-	1,258,963	1,281,389
Change in net assets from operating activities	(12,493)	152,399	-	139,906	(234,834)
Comprehensive capital campaign activities					
Capital campaign contributions	-	115,829	-	115,829	3,350,329
Capital campaign interest	-	3,591	-	3,591	9,322
Capital campaign expenses	(141,953)	-	-	(141,953)	(279,158)
Satisfaction of capital campaign restrictions					
Capital acquisitions	214,181	(214,181)	-	-	-
Capital campaign expenses	141,953	(141,953)	-	-	-
Appropriation for operations	-	(157,615)	-	(157,615)	-
Change in net assets from non-operating activities	214,181	(394,329)	-	(180,148)	3,080,493
Change in net assets before changes related to collection items					
Purchase of collection items	(14,800)	-	-	(14,800)	-
Change in net assets	186,888	(241,930)	-	(55,042)	2,845,659
Net assets, beginning of year	4,569,197	1,107,945	108,576	5,785,718	2,940,059
Net assets, end of year	\$ 4,756,085	\$ 866,015	\$ 108,576	\$ 5,730,676	\$ 5,785,718

See accompanying notes to financial statements.

MARTHA'S VINEYARD MUSEUM, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2012

(With Summarized Financial Information for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (55,042)	\$ 2,845,659
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	53,399	62,831
Revenue restricted for capital activities	(115,829)	(3,350,329)
Loss on sale of property	-	50,020
Disposition of capital assets	-	102,139
(Increase) decrease in operating assets:		
Accounts receivable	(16,206)	6,927
Pledges receivable	130,732	80,290
Inventories	1,683	(5,333)
Prepaid expenses and other assets	3,070	2,587
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	11,710	(1,954)
Total adjustments	<u>68,559</u>	<u>(3,052,822)</u>
Net cash provided by (used in) operating activities	<u>13,517</u>	<u>(207,163)</u>
Cash flows from investing activities:		
Expenditures for property, plant, and equipment	(227,581)	(2,911,105)
Proceeds from the sale of property	-	970,140
Change in interest bearing deposits, bank	149,359	(781)
Net cash used in investing activities	<u>(78,222)</u>	<u>(1,941,746)</u>
Cash flows from financing activities:		
Receipt of capital grants and contributions	115,829	3,350,329
Net payments on note payable, bank	-	(575,796)
Net cash provided by financing activities	<u>115,829</u>	<u>2,774,533</u>
Net increase in cash and cash equivalents	51,124	625,624
Cash and cash equivalents, beginning of year	<u>1,066,553</u>	<u>440,929</u>
Cash and cash equivalents, end of year	<u>\$ 1,117,677</u>	<u>\$ 1,066,553</u>
Supplemental disclosures of cash flows information is as follows		
Cash paid during the year for :		
Interest	\$ 933	\$ 20,383

See accompanying notes to financial statements.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Martha's Vineyard Museum was organized 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 Director's changed the corporate name to Martha's Vineyard Museum, Inc. (the "Museum"). The Museum 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 Museum consists of property in the Edgartown Campus including the Cooke House, the Pease House, the Huntington Library, a First Order Fresnel Lens, the Carriage/Boat Shed and the Try Works reproduction. In addition, the Museum owns the former Marine Hospital property in Vineyard Haven, the planned location of a new facility. The Museum 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 also offers 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 Museum's financial statements for the year ended December 31, 2011, 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 July 18, 2013, the date that the financial statements were available to be issued.

Cash

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

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. The Museum has established a policy that requires the proceeds from items de-accessed to be used to acquire other items for the collection.

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 Museum 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.

In late 2012 the Museum initiated a Comprehensive Capital Campaign to raise funds for the relocation of its campus to the property in Vineyard Haven purchased in September 2011. The Campaign will raise funds for three objectives: construction of facilities, additions to the Museum's endowment, and funding for operations support and program expansion during the period of planning and transition to the new location. All contributions to the campaign are considered temporarily restricted. Contributions to the general campaign may be used to satisfy direct campaign expenses or may be appropriated for operations by the Board in accordance with the planned objectives and budget for the Campaign. Contributions to specific objectives of the campaign remain temporarily restricted until the donor restriction is satisfied.

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.

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Description of program and supporting services (continued)

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.

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 Museum.

Advertising and promotion

All costs associated with advertising and promoting the Museum are expensed in the year incurred. Advertising and public relations expense was \$26,252 and \$26,057 in 2012 and 2011, respectively.

2 - PLEDGES RECEIVABLE

Pledges receivable consist of:

	<u>2012</u>	<u>2011</u>
Unrestricted		
Operating	\$ 220,881	\$ 349,231
Restricted		
Lighthouse access	110,000	120,000
Capital campaign	<u>42,101</u>	<u>42,101</u>
	372,982	511,332
Less: Unamortized discount	<u>30,869</u>	<u>38,487</u>
	<u>\$ 342,113</u>	<u>\$ 472,845</u>

As of December 31, 2012, pledges are expected to be received according to the following schedule:

	<u>Operating</u>	<u>Capital</u>
Within one year	\$ 178,382	\$ -
One to five years	92,500	42,100
Longer than five years	<u>60,000</u>	<u>-</u>
	<u>\$ 330,882</u>	<u>\$ 42,100</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	2012	2011
Land	-	\$ 1,379,032	\$ 1,379,032
Historic buildings	-	507,947	507,947
Buildings and improvements	7 - 31 years	1,122,551	1,109,916
Equipment and furniture	3 - 10 years	197,142	197,142
Construction in progress	-	1,881,051	1,666,105
		5,087,723	4,860,142
Less: Accumulated depreciation and amortization		819,978	766,579
		<u>\$ 4,267,745</u>	<u>\$ 4,093,563</u>

Depreciation and amortization for property, plant, and equipment was \$53,399 and \$56,508 in 2012 and 2011, respectively.

4 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2012	2011
Capital Campaign	\$ 44,188	\$ 438,517
Educational programs	472,388	153,895
Administrative	14,591	14,591
Lighthouse access	77,216	87,216
Lighthouses	20,867	22,396
Film and book publishing	48,422	50,763
Future operations	188,343	340,567
	<u>\$ 866,015</u>	<u>\$ 1,107,945</u>

During 2012, 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	\$ 219,850
Educational Programs	189,432
Other Programs	18,450
	427,732
Capital Asset Activities	371,796
	<u>\$ 799,528</u>

MARTHA'S VINEYARD MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - 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 Museum is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2009.

6 - RECLASSIFICATIONS

Certain amounts in the 2011 comparative totals have been reclassified to conform to the 2012 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, 2012
(With Summarized Financial Information for 2011)

	Program	General and Administrative	Membership and Fund Raising	Totals	
				2012	2011
Salaries and wages	\$ 200,426	\$ 235,992	\$ 160,257	\$ 596,675	\$ 580,579
Employee benefits	18,805	23,772	17,557	60,134	60,423
Payroll taxes	16,542	19,477	13,227	49,246	47,314
Total personnel expenses	235,773	279,241	191,041	706,055	688,316
Accounting and legal	-	9,923	-	9,923	9,140
Advertising	25,425	-	827	26,252	26,057
Collection and exhibits	30,712	-	-	30,712	23,470
Contract services	-	5,047	5,962	11,009	17,234
Cost of sales	11,330	-	-	11,330	11,426
Dues and subscriptions	386	1,335	255	1,976	2,026
Insurance					
Building and liability	-	15,339	-	15,339	10,757
Interest	-	933	-	933	18,891
Lighthouses	48,809	-	-	48,809	85,845
Occupancy					
Utilities	2,542	15,208	-	17,750	22,318
Repairs and maintenance	1,446	12,449	-	13,895	17,726
Printing, postage and mailing	212	1,424	18,900	20,536	19,240
Publications for membership	24,885	-	4,995	29,880	20,130
Programs and special events	131,728	-	85,049	216,777	204,112
Supplies	8,979	13,476	2,859	25,314	23,052
Telephone	-	7,799	-	7,799	6,823
Travel	59	4,139	1,097	5,295	-
Other	438	1,839	3,703	5,980	12,589
Total expenses before depreciation and amortization	522,724	368,152	314,688	1,205,564	1,219,152
Depreciation and amortization	53,399	-	-	53,399	62,237
	<u>\$ 576,123</u>	<u>\$ 368,152</u>	<u>\$ 314,688</u>	<u>\$ 1,258,963</u>	<u>\$ 1,281,389</u>

See accompanying independent auditor's report.