

**CAPE ANN MUSEUM, INC.  
FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

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**INDEPENDENT AUDITOR'S REPORT**

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To the Board of Directors  
Cape Ann Museum, Inc.  
Gloucester, Massachusetts

I have audited the accompanying financial statements of Cape Ann Museum, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years 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**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cape Ann Museum, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Supplementary Information**

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 19 and 20 are presented for purposes of additional analysis and are 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

May 10, 2018  
Gloucester, Massachusetts

A handwritten signature in blue ink that reads "Jon R. Morse CPA PC". The signature is written in a cursive style with a large initial "J".

**CAPE ANN MUSEUM, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and Cash Equivalents(Notes 2&13)	\$ 540,951	\$ 384,827
Unconditional promises to give(Note 11)	36,300	68,434
Inventory-Gift Shop(Note 2)	69,570	60,364
Prepaid Insurance	23,588	20,489
Total Current Assets	670,409	534,114
Investments(Notes 3&12)	11,616,374	10,497,095
Unconditional promises to give(Note 11)	-	26,825
Land, Buildings and Equipment(Note 4)	6,217,533	6,447,431
Collections(Note 5)	1	1
Total Assets	\$ 18,504,317	\$ 17,505,466
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current Liabilities:		
Accounts Payable and accrued expenses	101,993	\$ 93,825
Sales Tax Payable	1,241	1,425
Line of Credit(Note 8)	147,500	122,500
Loan Payable-Collection(Note 6)	17,500	17,500
Total Current Liabilities	268,234	235,250
Long Term Liabilities:		
Loan Payable-Collection(Note 6)	17,500	35,000
Deferred Membership Revenue(Note 7)	33,048	19,730
Total Long term liabilities	50,548	54,730
Total Liabilities	318,782	289,980
Net Assets: (Notes 9&10)		
Unrestricted:		
Board Designated Endowment	2,000,000	2,000,000
Unrestricted	12,653,156	11,819,103
Temporarily Restricted-Specified Activities	147,416	144,064
Temporarily Restricted-Capital Campaign	927,491	1,002,630
Permanently Restricted	2,457,472	2,249,689
Total Net Assets	18,185,535	17,215,486
Total Liabilities and Net Assets	\$ 18,504,317	\$ 17,505,466

See accompanying notes to financial statements.



**CAPE ANN MUSEUM , INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	UNRESTRICTED	BOARD DESIGNATED ENDOWMENT	TEMPORARILY RESTRICTED SPECIFIED ACTIVITIES	CAPITAL CAMPAIGN	PERMANENTLY RESTRICTED	2017 TOTAL
Revenue:						
Memberships	\$ 353,673					\$ 353,673
Donations	433,044		152,585	53,925		639,554
Bequest	106,000					106,000
Admissions	83,386					83,386
Sales	119,106					119,106
Exhibits, Programs & Events	146,225					146,225
Grants	15,840		92,754			108,594
Insurance proceeds	398					398
Investment Income	229,568			187	59,249	289,004
Net Realized/Unrealized Gains (Losses)	931,030				211,284	1,142,314
	<hr/>					
Total Revenue	2,418,270	-	245,339	54,112	270,533	2,988,254
Net Assets Released from Restrictions	433,988		(241,987)	(129,251)	(62,750)	
	<hr/>					
Total Revenue and Reclassifications	2,852,258	-	3,352	(75,139)	207,783	2,988,254
	<hr/>					
Expenses:						
Programs	(1,449,491)					(1,449,491)
Management and General	(379,869)					(379,869)
Fundraising	(188,845)					(188,845)
Total Expenses	(2,018,205)	-	-	-	-	(2,018,205)
	<hr/>					
Total Expenses and Losses	(2,018,205)					(2,018,205)
Change in Net Assets	834,053	-	3,352	(75,139)	207,783	970,049
Net Assets, beginning of year	11,819,103	2,000,000	144,064	1,002,630	2,249,689	17,215,486
	<hr/>					
Net Assets, end of year	\$ 12,653,156	\$ 2,000,000	\$ 147,416	\$ 927,491	\$ 2,457,472	18,185,535
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**See accompanying notes to the financial statements**

**CAPE ANN MUSEUM, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	UNRESTRICTED	BOARD DESIGNATED ENDOWMENT	TEMPORARILY RESTRICTED SPECIFIED ACTIVITIES	CAPITAL CAMPAIGN	PERMANENTLY RESTRICTED	2016 TOTAL
Revenue:						
Memberships	\$ 317,586					\$ 317,586
Donations	499,059		223,076	107,891		830,026
Admissions	51,614					51,614
Sales	98,437					98,437
Exhibits, Programs & Events	131,648					131,648
Grants	-		46,960	48,560		95,520
Insurance proceeds	281					281
Investment Income	242,114			70	67,697	309,881
Net Realized/Unrealized Gains (Losses)	617,244				146,906	764,150
<b>Total Revenue</b>	<b>1,957,983</b>	<b>-</b>	<b>270,036</b>	<b>156,521</b>	<b>214,603</b>	<b>2,599,143</b>
Net Assets Released from Restrictions	316,606		(166,837)	(76,452)	(73,317)	
<b>Total Revenue and Reclassifications</b>	<b>2,274,589</b>	<b>-</b>	<b>103,199</b>	<b>80,069</b>	<b>141,286</b>	<b>2,599,143</b>
Expenses:						
Programs	(1,380,742)					(1,380,742)
Management and General	(355,579)					(355,579)
Fundraising	(189,796)					(189,796)
<b>Total Expenses</b>	<b>(1,926,117)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,926,117)</b>
<b>Total Expenses and Losses</b>	<b>(1,926,117)</b>					<b>(1,926,117)</b>
Change in Net Assets	348,472	-	103,199	80,069	141,286	673,026
Net Assets, beginning of year	11,470,631	2,000,000	40,865	922,561	2,108,403	16,542,460
Net Assets, end of year	<u>\$ 11,819,103</u>	<u>\$ 2,000,000</u>	<u>\$ 144,064</u>	<u>\$ 1,002,630</u>	<u>\$ 2,249,689</u>	<u>17,215,486</u>

See accompanying notes to the financial statements

**CAPE ANN MUSEUM, INC**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase/(Decrease) in Net Assets	\$ 970,049	\$ 673,026
Adjustments to Reconcile Net Income to Net Cash Provided by Operations:		
Depreciation and Amortization	293,318	303,044
Realized and Unrealized (Gains)Losses on Investments	(1,142,314)	(764,150)
Bad Debt Expense	30,000	-
Contributions received for long-term purposes	(5,000)	-
(Increase)Decrease in Operating Assets		
Unconditional Promises to Give	28,959	93,619
Prepaid Insurance	(3,099)	2,900
Inventory	(9,206)	(564)
Increase (Decrease) in Operating Liabilities		
Accounts Payable and Accrued Expenses	8,168	(7,993)
Sales Tax payable	(184)	(56)
Deferred Membership revenue	13,318	6,972
Net Cash Provided by Operating Activities	<u>184,009</u>	<u>306,798</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for Property and Equipment	(63,420)	(17,023)
Payments for Website - Fitz Henry Lane Online	-	(15,250)
Purchases of Investments	(6,345,182)	(2,205,262)
Proceeds from Sales of Investments	6,368,217	2,220,250
Net Cash Provided(Used) by Investing Activities	<u>(40,385)</u>	<u>(17,285)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contribution to Endowment	5,000	-
Loan Proceeds on Line of Credit	25,000	117,500
Loan Repayments on Line of Credit	-	(145,000)
Loan Repayments on Manship Tortoise	(17,500)	(17,500)
Net Cash Provided(Used) by Financing Activities	<u>12,500</u>	<u>(45,000)</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 156,124	 244,513
BEGINNING CASH AND CASH EQUIVALENTS	<u>384,827</u>	<u>140,314</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 540,951</u>	<u>\$ 384,827</u>
 SUPPLEMENTAL DISCLOSURE :		
Interest Paid	\$6,515	\$5,461

See accompanying notes to financial statements.



**CAPE ANN MUSEUM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Note 1 – Operations

The Museum, a public, non-profit organization, was founded in 1873, incorporated in Massachusetts in 1876 and changed its name to “Cape Ann Museum, Inc.” in 2014. Its purposes are the ownership, operation, preservation, and exhibition of historical buildings, objects and records, and works of art. The Museum maintains a historic house at 27 Pleasant Street, Gloucester, supplemented by two modern wings where its collections are exhibited. The Museum also maintains the historic White-Ellery house at another site which is used for museum programming. The Museum sponsors special exhibits, lectures, films, concerts and excursions for its members and for the public.

Note 2 – Summary of Significant Accounting Policies

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

A. Basis of Accounting

The financial statements of the Museum have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

B. Financial statement presentation

The Museum reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

C. Investments

The Museum reports investments in marketable equity securities with readily determinable fair market values at fair market value.

D. Cash and cash equivalents

Cash consists of the Museum’s checking accounts for operations and capital campaign funds and a savings account. Certain money market funds and time deposits designated by the Board and held by the Museum's Investment Custodian are not deemed to be cash.

E. Donated services

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Museum’s programs and activities. The value of this contributed time is not susceptible to objective measurement and valuation and therefore is not reflected in the accompanying financial statements.



**CAPE ANN MUSEUM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Note 2 – Summary of Significant Accounting Policies (continued)

F. Tax positions and filings

The Museum qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. The Museum is not a private foundation.

In 2009, the Museum adopted Topic 740 of the FASB Accounting Standards Codification (ASC) relating to accounting for uncertainty in income taxes. As required by this topic, Management of the Museum has evaluated its tax positions, applying a "More Likely Than Not" standard, and believes that there would be no material changes to the results of its operations or financial position as a result of an audit by applicable taxing authorities, federal or state. The Museum has filed all of its known required returns in a timely manner including, as permitted, allowed extensions. Tax years 2014, 2015, 2016 and 2017 remain open and subject to review.

G. Inventory

Inventory primarily consists of publications, photos, postcards and other items of historical content as well as educational and household items relevant to the Museum's programs. These are sold to the public in the Museum's gift shop. Inventory is valued at the lower of cost (first-in, first-out method) or market.

H. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the 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.

I. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets until the restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished). When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.

J. Accrued compensated absences

The Museum does not provide for carryover of compensated absences and therefore no accrual is made.

**CAPE ANN MUSEUM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Note 3 - Investments

Investments are presented in the financial statements at fair value. Unrestricted, realized/unrealized gains were \$931,030 and \$617,244 at December 31, 2017 and 2016, respectively. Restricted, realized/unrealized gains were \$211,284 and \$146,906 at December 31 2017 and 2016, respectively.

Investments consist of:	<u>2017</u> Cost	<u>2017</u> Fair Value	<u>2016</u> Cost	<u>2016</u> Fair Value
Cash and Cash Equivalents(Note 2)	\$ 200,828	\$ 200,828	\$ 151,674	\$ 151,682
Fixed Income Securities	4,159,935	4,048,043	3,793,324	3,589,915
Equity	4,948,265	7,367,503	4,916,852	6,755,498
Total Investments	<u>\$ 9,309,028</u>	<u>\$ 11,616,374</u>	<u>\$ 8,861,850</u>	<u>\$ 10,497,095</u>

Investments are Restricted as Follows:	<u>2017</u>	<u>2016</u>
Unrestricted:		
Board Designated for Endowment	\$ 2,000,000	\$ 2,000,000
Unrestricted	<u>7,158,902</u>	<u>6,247,406</u>
	9,158,902	8,247,406
Permanently Restricted:		
Catalina Davis Fund	133,048	115,721
Margaret Farrell Lynch Fund	781,117	706,913
Edward Hyde Cox Endowment Fund	<u>1,543,307</u>	<u>1,427,055</u>
	2,457,472	2,249,689
Total Investments	<u>\$ 11,616,374</u>	<u>\$ 10,497,095</u>

Investment Income:	<u>2017</u>	<u>2016</u>
Unrestricted Earnings	\$ 229,568	\$ 242,114
Temporarily Restricted Earnings	187	70
Permanently Restricted Earnings	<u>59,249</u>	<u>67,697</u>
	289,004	309,881
Net Realized/Unrealized Capital Gains(Losses)	<u>1,142,314</u>	<u>764,150</u>
Total Investment Gain(Loss)	<u>\$ 1,431,318</u>	<u>\$ 1,074,031</u>

**CAPE ANN MUSEUM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Note 4 – Land, Buildings, and Equipment

Land, buildings, and equipment are located in Gloucester, Massachusetts, and are carried at cost or fair market value for donated items. Expenditures for maintenance and repairs are charged to expense in the current period. Major repairs and acquisitions with a useful life greater than one year are capitalized and depreciated/amortized using the straight-line method over estimated useful lives ranging from three to forty years. A summary of land, buildings, equipment and accumulated depreciation and amortization is detailed below.

	<u>2017</u>	<u>2016</u>
Cape Ann Museum Buildings and Improvements	\$8,584,005	\$8,528,388
Sculpture Park- 26 Pleasant Street	624,096	624,096
White-Ellery House- 247 Washington Street	236,215	236,215
Furniture and Fixtures	318,639	318,639
Office & Program Equipment	133,876	126,073
Website and Software	<u>117,658</u>	<u>117,658</u>
	10,014,489	9,951,069
Less: Accumulated Depreciation and Amortization	<u>(3,796,956)</u>	<u>(3,503,638)</u>
Total Land, Building and Equipment	<u>\$6,217,533</u>	<u>\$6,447,431</u>

For the year ended December 31, 2017 and 2016, the depreciation and amortization expense amounted to \$293,318 and \$303,044 respectively.



**CAPE ANN MUSEUM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Note 5 – Collections

Collections consist of works of art, objects, artifacts and records reflective of Cape Ann and its heritage. Collection items, whether purchased or donated, are not capitalized because their intrinsic value is not susceptible to reasonable estimation. The collection is carried at \$1.00. It is the policy of the Museum that proceeds from the sale of collection items will be used to purchase additional collection items or to maintain or preserve the collection. New acquisitions are then charged as collection acquisitions.

The Collections of the Museum are its primary asset and their display and accessibility to the public are two of its primary objectives. A collections committee monitors the acquisition and disposition of collection items. The committee and management are responsible for recommending and implementing measures to enhance the conservation, maintenance and security of the collection.

Note 6 – Loan Payable-Collection

In September 2015, the Museum acquired The Tortoise, a sculpture by Paul Manship for its collection. The Manship Estate agreed to finance the purchase price of \$87,500 with a no interest installment note requiring five equal payments of \$17,500 each. The unpaid balance was \$17,500 and \$35,000 at December 31, 2017 and 2016, respectively.

Loan payment maturities are as follows:	<u>2017</u>	<u>2016</u>
Current	<u>\$17,500</u>	<u>\$17,500</u>
Long term 2017	\$ -	\$17,500
2018	<u>17,500</u>	<u>17,500</u>
Total	<u>\$17,500</u>	<u>\$35,000</u>

Note 7- Deferred Membership Revenue

Deferred revenue from membership is comprised of 2 year memberships from various levels of membership categories and for 1 year membership renewals paid in advance of expiration.

The amount of deferred revenue from these membership levels amount to \$33,048 and \$19,730 at December 31, 2017 and 2016, respectively.



**CAPE ANN MUSEUM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Note 8 – Lines of Credit

In November 2013, the Museum established a line of credit with a local bank to draw upon for the renovations of the Museum. The terms allow borrowing of up to \$2,937,000. The line carried an interest rate of 3.25% and was repayable over a period not to exceed five years. Museum investments of up to \$2,937,000 were pledged as collateral. A total of \$690,000 was drawn against the line and the line was paid in full and closed in September of 2016.

In March of 2015, the Museum opened an additional line of credit to draw upon as needed for operating activities. The terms for this line allowed borrowing of up to \$100,000, was unsecured and payable on demand. In September 2016, the line was modified to increase the line to \$200,000 under the same payment and security terms. The line carries a current interest rate of 4.5% and the unpaid balance was \$147,500 and \$122,500 at December 31, 2017 and 2016, respectively.

Note 9 – Restrictions on Net Assets

**Unrestricted:**

The Board of Directors voted in December, 1997 that \$2,000,000 of otherwise unrestricted investments will be held as a “Board Designated Endowment” to preserve and protect the future financial security of the Museum. The Museum fully funded this vote with the transfer of funds to its Investment Custodian in January 1999.

**Temporarily Restricted:**

**A: Specified Activities**

The Museum received various grants and donations that have been donor restricted for their intended purpose. The following summarizes the unexpended balances for these activities at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
• Collection acquisitions	\$ 27,560	\$ 938
• White-Ellery House & Barn restoration/preservation	2,120	-
• Education programs	15,566	19,479
• Museum Buildings improvements	24,513	30,174
• Space Usage Project	20,964	53,221
• Exhibits/programs	<u>56,693</u>	<u>40,252</u>
Total Specified Activities	<u>\$ 147,416</u>	<u>\$ 144,064</u>

**CAPE ANN MUSEUM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Note 9 – Restrictions on Net Assets-continued

**B: Capital Campaign**

In 2011, the Museum commenced a capital campaign drive which raised \$6,157,000 in funds of which \$1,000,000 is proposed to be allocated to the Board designated endowment. The balance of funds are devoted to several purposes including specified capital expansion and improvements to the museum property; conversion of a building to a park; collections acquisitions and conservation; the Fitz Henry Lane on-line interactive data base; redesign of the Museum's website; digitization of the collection and other smaller projects.

The Museum held segregated assets totaling \$1,125,050 and \$1,164,446 at December 31, 2017 and 2016, respectively, to satisfy the purposes of the campaign.

The actual unexpended balance of the capital campaign donations at December 31, 2017 and 2016 totals \$927,491 and \$1,002,630, respectively.

**Permanently Restricted:**

The Catalina Davis Fund, established in 1928, is a perpetual Fund wherein the Museum does not have the right to receive principal. All capital gains are reinvested and added to principal while the remainder of earnings are available for distribution to the Museum on a quarterly basis.

The Margaret Farrell Lynch Fund was established in February 2000 wherein the Museum has the right to income. All capital gains are reinvested and added to corpus while remaining net income after payment of investment fees are distributed to the Museum on a monthly basis.

The Edward Hyde Cox Endowment Fund was established in April 2000 wherein the capital gains are reinvested and the remainder of net earnings is distributed to the Museum and used under the direction of the Trustees. The Museum may also use principal of the Fund, not to exceed \$100,000, to purchase any real property adjacent or contiguous to the existing buildings of the Museum.

**CAPE ANN MUSEUM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Note 9– Restrictions on Net Assets (continued)

The permanently restricted net assets are summarized as follows:

	Catalina Davis <u>Fund</u>	Margaret Farrell Lynch <u>Fund</u>	Edward Hyde Cox Endowment <u>Fund</u>	<u>Total</u>
Balance, December 2015	\$ 113,123	\$ 663,804	\$ 1,331,476	\$ 2,108,403
Earned Income	2,516	24,941	40,240	67,697
Net Realized/Unrealized Capital Gain(loss)	2,850	44,535	99,521	146,906
Investment Fees	(405)	(2,406)	(4,773)	(7,584)
Current Year Distributions	<u>(2,363)</u>	<u>(23,961)</u>	<u>(39,409)</u>	<u>(65,733)</u>
Balance, December 2016	<u>\$ 115,721</u>	<u>\$ 706,913</u>	<u>\$ 1,427,055</u>	<u>\$ 2,249,689</u>
Earned Income	2,406	19,348	37,495	59,249
Net Realized/Unrealized Capital Gain(loss)	17,671	74,946	118,667	211,284
Investment Fees	(456)	(2,697)	(5,025)	(8,178)
Current Year Distributions	<u>(2,294)</u>	<u>(17,393)</u>	<u>(34,885)</u>	<u>(54,572)</u>
Balance, December 2017	<u><u>\$ 133,048</u></u>	<u><u>\$ 781,117</u></u>	<u><u>\$ 1,543,307</u></u>	<u><u>\$ 2,457,472</u></u>



**CAPE ANN MUSEUM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Note 10 – Endowments

As discussed in Note 10- Restrictions on Net Assets, the Board of Directors created a “Board Designated Endowment” of \$2,000,000 in 1997. The Museum has also accepted three separate, permanently restricted funds which totaled \$2,457,472 and \$2,249,689 at December 31 2017 and 2016, respectively. The endowments are monitored by the finance committee with the advice of its money manager and are subject to the overall investment policy statement adopted in 2011. This policy adopts a 10 year investment horizon and has as its objective; a goal to preserve and maintain the principal with a balanced portfolio of diversified investments.

Appropriations of the board designated funds are subject to specific board approval while donor restrictions, identified in Note 9, dictate the use of earnings and, if applicable principal distributions.

Details of investment classes and activity of these funds are detailed in Note 3- Investments.

Note 11 - Unconditional Promises to Give

At December 31, 2017 and 2016 the Museum had recorded unconditional promises to give totaling \$36,300 and \$95,259 respectively. The use of these promises is restricted to the purposes of the capital campaign as discussed in Note 9B. above. The promises are recorded at fair value and, for amounts due in more than one year, are discounted using present value techniques and a discount rate of 3 percent. All promises to give at December 31, 2017 were deemed short term. The total discount for 2016 was \$1,925. Included in these totals are promises to give from members of the board totaling \$5,000 and \$25,000 at December 31, 2017 and 2016, respectively. No allowance for uncollectible promises is deemed necessary.

They are promised as follows:

	<u>2017</u>	<u>2016</u>
2017	\$ -	\$ 68,434
2018	36,300	17,674
2019	<u>-</u>	<u>9,151</u>
Totals	<u>\$ 36,300</u>	<u>\$ 95,259</u>



**CAPE ANN MUSEUM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Note 12– Fair Value of Investments

The Museum, in accordance with U.S. generally accepted accounting principles, implemented the following requirements related to the fair value measurements for its financial assets and liabilities. The adoption of these principles did not have a material impact on the Museum's financial position or results of operations. U.S. generally accepted accounting principles refines the definition of fair value, expands disclosure requirements about fair value measurements, and established specific requirements as well as guidelines for a consistent framework to measure fair value. U.S. generally accepted accounting principles defines fair value as the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants. Further, U.S. generally accepted accounting principles require the Museum to maximize the use of observable market inputs, minimize the use of unobservable market inputs and disclose the form of an outlined hierarchy of the details of such fair value measurements. U.S. generally accepted accounting principles specify a hierarchy of valuation techniques based in whether the inputs to fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Museum's market assumptions.

This hierarchy requires the use of observable market data when available. These inputs have created the following value of hierarchy:

Level 1- Quoted market prices in active markets for identical assets or liabilities.

Level 2- Observable inputs other than those included in Level 1. For example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets.

Level 3- Unobservable inputs reflecting management's own assumptions about the inputs used in estimating the value of the asset.

The Museum recognizes transfers into and out of levels as of the date of the event or change in circumstances that cause the transfer. Those changes are reflected below.

**CAPE ANN MUSEUM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Note 12– Fair Value of Investments-Continued

The following table summarizes the Museum's financial assets measured at fair value on a recurring basis in accordance with U.S. generally accepted accounting principles as of December 31, 2017.

	<u>Level 1</u>	<u>Level 2</u>
Cash	\$ 4,956	\$ -
Certificate of Deposits (Maturity dates ranging from May 2018-March 2025)	-	744,627
Money market accounts	-	195,871
Fixed Income Securities	3,303,416	-
Equity	<u>7,367,504</u>	<u>-</u>
Total	\$ <u>10,675,876</u>	\$ <u>940,498</u>

The following table summarizes the Museum's financial assets measured at fair value on a recurring basis in accordance with U.S. generally accepted accounting principles as of December 31, 2016.

	<u>Level 1</u>	<u>Level 2</u>
Cash	\$ 3,685	\$ -
Certificate of Deposits (Maturity dates ranging from June 2018-September 2021)	-	591,266
Money market accounts	-	147,997
Fixed Income Securities	2,998,650	-
Equity	<u>6,755,497</u>	<u>-</u>
Total	\$ <u>9,757,832</u>	\$ <u>739,263</u>

**CAPE ANN MUSEUM, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Note 13 – Uninsured Deposits

At December 31, 2017 and 2016, the Museum maintained cash accounts with one financial institution with balances in excess of federally insured limits of \$250,000. The excess was insured by the Depositors Insurance Fund.

Note 14 – Related Party Transactions

A family member related to an officer of the Museum provided services for building repairs and improvements totaling \$67,925 and \$31,925 at December 31, 2017 and 2016, respectively.

Note 15 – Evaluation of Subsequent Events

The Museum has evaluated subsequent events through May 10, 2018, the date which the financial statements were available to be issued.

**CAPE ANN HISTORICAL MUSEUM, INC.  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>PROGRAMS</u>	MANAGEMENT & <u>GENERAL</u>	<u>FUNDRAISING</u>	2017 <u>TOTAL</u>
Payroll & Benefits	\$433,220	\$161,877	\$115,548	\$710,645
Payroll Taxes	34,992	12,751	8,772	56,516
Total Payroll and Related Expenses	468,212	174,628	124,321	767,161
Accounting and Legal	-	44,775	-	44,775
Advertising and Public Relations	13,961	-	-	13,961
Bad Debt Expense	-	30,000	-	30,000
Catalogue Raisonne- Fitz Henry Lane Online	6,153	-	-	6,153
Collection Acquisitons	15,405	-	-	15,405
Collection Management	33,614	-	-	33,614
Consulting- Special Projects	70,676	24,252	1,688	96,616
Exhibits, Programs & Events	92,179	-	43,628	135,807
Insurance	24,987	4,070	2,365	31,422
Interest Expense	6,515	-	-	6,515
Investment Custodial Fees	-	34,512	-	34,512
Items Purchased for Resale	68,172	-	-	68,172
Member Services	55,621	-	-	55,621
Miscellaneous	4,496	2,998	-	7,495
Office and Postage	45,916	9,975	10,607	66,497
Repair and Maintenance	98,892	10,987	-	109,879
Scholarship- Landscape Award	5,000	-	-	5,000
Security Systems	7,170	-	-	7,170
Staff & Board Development	800	-	-	800
Telephone	4,540	1,397	1,048	6,985
Utilities	158,764	15,876	1,764	176,405
Website & IT Services	4,430	-	492	4,922
Total Expenses Before Depreciation	1,185,505	353,470	185,912	1,724,887
Depreciation/Amortization	263,986	26,399	2,933	293,318
Total Expenses	\$1,449,491	\$379,869	\$188,845	\$2,018,205

See accompanying notes to the financial statements



**CAPE ANN HISTORICAL MUSEUM, INC.  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>PROGRAMS</u>	MANAGEMENT & <u>GENERAL</u>	<u>FUNDRAISING</u>	2016 <u>TOTAL</u>
Payroll & Benefits	\$420,469	\$153,683	\$109,415	\$683,568
Payroll Taxes	34,319	12,358	8,535	55,214
Total Payroll and Related Expenses	454,788	166,043	117,952	738,782
Accounting and Legal	-	63,744	-	63,744
Advertising and Public Relations	10,756	-	-	10,756
Catalogue Raisonne- Fitz Henry Lane Online	30,115	-	-	30,115
Collection Acquisitons	6,766	-	-	6,766
Collection Management	16,815	-	-	16,815
Collection Loan- Fresnel Lens	94	-	-	94
Consulting- Special Projects	46,057	22,217	-	68,274
Exhibits, Programs & Events	80,751	-	52,941	133,692
Insurance	25,336	4,290	2,553	32,179
Interest Expense	5,461	-	-	5,461
Investment Custodial Fees	-	31,840	-	31,840
Items Purchased for Resale	57,130	-	-	57,130
Member Services	42,920	-	-	42,920
Miscellaneous	4,111	2,743	-	6,854
Office and Postage	40,051	8,857	10,142	59,050
Repair and Maintenance	91,561	10,172	-	101,733
Scholarship- Landscape Award	5,000	-	-	5,000
Security Systems	8,220	-	-	8,220
Staff & Board Development	3,856	-	-	3,856
Telephone	4,155	1,279	959	6,393
Utilities	171,205	17,121	1,902	190,228
Website & IT Services	2,854	-	317	3,171
Total Expenses Before Depreciation	1,108,002	328,305	186,766	1,623,073
Depreciation/Amortization	272,740	27,274	3,030	303,044
Total Expenses	<u>\$1,380,742</u>	<u>\$355,579</u>	<u>\$189,796</u>	<u>\$1,926,117</u>

See accompanying notes to the financial statements