

HARVEY & MARTIN, PLLC

CAPE ANN MUSEUM, INC.

AUDITED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND 2017

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to the Financial Statements	9-20



HARVEY & MARTIN, PLLC

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Of Counsel

## INDEPENDENT AUDITOR'S REPORT

May 23, 2019

To the Board of Directors  
Cape Ann Museum, Inc.  
27 Pleasant Street  
Gloucester, Massachusetts 01930

We 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, 2018, and the related statements of activities, functional expenses 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 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, 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.

- 1 -

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 Cape Ann Museum, Inc. as of December 31, 2018 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.

### **Prior Period Financial Statements**

The financial statements of Cape Ann Museum, Inc. as of December 31, 2017, were audited by Jon R. Morse, CPA, PC who has ceased operations and whose report dated May 10, 2018, expressed an unmodified opinion on those statements.

Yours truly,

A handwritten signature in cursive script that reads "Harvey Martin PLLC".

Gloucester, Massachusetts

CAPE ANN MUSEUM, INC

STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>-- ASSETS --</u>		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 2 and 14)	\$ 1,028,239	\$ 540,951
Unconditional promises to give (Note 11)	5,300	36,300
Inventory - gift shop (Note 2)	73,945	69,570
Prepaid insurance	21,752	23,588
Deposits	63,146	-
Total current assets	<u>1,192,382</u>	<u>670,409</u>
PROPERTY AND EQUIPMENT - NET (Note 4)	<u>6,193,590</u>	<u>6,217,533</u>
OTHER ASSETS:		
Investments (Notes 3 and 12)	10,884,586	11,616,374
Unconditional promises to give (Note 11)	9,289	-
Collections (Note 5)	1	1
Total other assets	<u>10,893,876</u>	<u>11,616,375</u>
TOTAL	<u>\$ 18,279,848</u>	<u>\$ 18,504,317</u>
<u>-- LIABILITIES AND NET ASSETS --</u>		
CURRENT LIABILITIES:		
Line of credit (Note 8)	\$ 167,500	\$ 147,500
Accounts payable and accrued expenses	368,910	103,234
Loan payable - collection (Note 6)	17,500	17,500
Deferred membership revenue (Note 7)	23,945	33,048
Total current liabilities	<u>577,855</u>	<u>301,282</u>
LONG -TERM DEBT (Note 6)	<u>-</u>	<u>17,500</u>
Total liabilities	<u>577,855</u>	<u>318,782</u>
NET ASSETS: (Notes 9 and 10)		
Without donor restrictions:		
Unrestricted	11,645,817	12,653,156
Board designated endowment	3,000,000	2,000,000
With donor restrictions	3,056,176	3,532,379
Total net assets	<u>17,701,993</u>	<u>18,185,535</u>
TOTAL	<u>\$ 18,279,848</u>	<u>\$ 18,504,317</u>

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

CAPE ANN MUSEUM, INC

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	2018 TOTAL
Revenue:			
Memberships	\$ 361,406	\$ -	\$ 361,406
Donations	328,916	722,758	1,051,674
Bequests	85,000	-	85,000
Admissions	69,879	-	69,879
Sales	117,718	-	117,718
Exhibits, programs, and events	144,593	-	144,593
Grants	18,740	223,240	241,980
Interest income	1,173	233	1,406
Investment income, net	248,847	63,443	312,290
Net realized/unrealized losses	(559,486)	(148,479)	(707,965)
Net assets released from restrictions	1,337,398	(1,337,398)	-
	<u>2,154,184</u>	<u>(476,203)</u>	<u>1,677,981</u>
Total revenue and support			
Expenses:			
Programs	1,526,935	-	1,526,935
Management and general	378,488	-	378,488
Fundraising	256,100	-	256,100
	<u>2,161,523</u>	<u>-</u>	<u>2,161,523</u>
Total expenses			
CHANGE IN NET ASSETS	(7,339)	(476,203)	(483,542)
NET ASSETS - BEGINNING	<u>14,653,156</u>	<u>3,532,379</u>	<u>18,185,535</u>
NET ASSETS - ENDING	<u>\$ 14,645,817</u>	<u>\$ 3,056,176</u>	<u>\$ 17,701,993</u>

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

CAPE ANN MUSEUM, INC

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2017 TOTAL
Revenue:			
Memberships	\$ 353,673	\$ -	\$ 353,673
Donations	433,044	206,510	639,554
Bequests	106,000	-	106,000
Admissions	83,386	-	83,386
Sales	119,106	-	119,106
Exhibits, programs, and events	146,225	-	146,225
Grants	15,840	92,754	108,594
Insurance proceeds and interest income	1,105	187	1,292
Investment income, net	202,527	51,071	253,598
Net realized/unrealized gains	931,030	211,284	1,142,314
Net assets released from restrictions	425,810	(425,810)	-
	<u>2,817,746</u>	<u>135,996</u>	<u>2,953,742</u>
Total revenue and support			
Expenses:			
Programs	1,449,491	-	1,449,491
Management and general	345,357	-	345,357
Fundraising	188,845	-	188,845
	<u>1,983,693</u>	<u>-</u>	<u>1,983,693</u>
Total expenses			
CHANGE IN NET ASSETS	834,053	135,996	970,049
NET ASSETS - BEGINNING	<u>13,819,103</u>	<u>3,396,383</u>	<u>17,215,486</u>
NET ASSETS - ENDING	<u>\$ 14,653,156</u>	<u>\$ 3,532,379</u>	<u>\$ 18,185,535</u>

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

CAPE ANN MUSEUM, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2018 TOTAL</u>
Payroll and benefits	\$463,657	\$170,985	\$111,575	\$746,217
Payroll taxes	39,108	14,069	9,285	62,462
Total payroll and related expenses	502,765	185,054	120,860	808,679
Accounting and legal	-	39,020	-	39,020
Advertising and public relations	45,630	-	-	45,630
Catalogue Raisonne - FHL online	3,015	-	-	3,015
Collection acquisitions	21,800	-	-	21,800
Collection management	12,046	-	-	12,046
Consulting - special projects	36,734	79,717	60,276	176,727
Exhibits, programs, and events	100,990	-	52,849	153,839
Insurance	26,576	4,353	2,684	33,613
Interest expense	6,180	-	-	6,180
Items purchased for resale	71,320	-	-	71,320
Member services	78,529	-	-	78,529
Miscellaneous	5,422	3,615	-	9,037
Office and postage	49,748	10,906	12,056	72,710
Repairs and maintenance	115,151	12,795	-	127,946
Scholarship	5,000	-	-	5,000
Security systems	7,306	-	-	7,306
Staff and board development	1,574	-	-	1,574
Telephone	4,283	1,318	989	6,590
Utilities	156,922	15,692	1,744	174,358
Website and IT services	15,759	-	1,751	17,510
Total expenses before depreciation	1,266,750	352,470	253,209	1,872,429
Depreciation and amortization	260,185	26,018	2,891	289,094
Total expenses	<u>\$1,526,935</u>	<u>\$378,488</u>	<u>\$256,100</u>	<u>\$2,161,523</u>

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

CAPE ANN MUSEUM, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2017 TOTAL</u>
Payroll and benefits	\$433,220	\$161,877	\$115,548	\$710,645
Payroll taxes	34,992	12,751	8,772	56,515
Total payroll and related expenses	468,212	174,628	124,320	767,160
Accounting and legal	-	44,775	-	44,775
Advertising and public relations	13,961	-	-	13,961
Bad debt expense	-	30,000	-	30,000
Catalogue Raisonne - FHL online	6,153	-	-	6,153
Collection acquisitions	15,405	-	-	15,405
Collection management	33,614	-	-	33,614
Consulting - special projects	70,676	24,252	1,688	96,616
Exhibits, programs, and events	75,456	-	43,628	119,084
Insurance	24,987	4,070	2,365	31,422
Interest expense	6,515	-	-	6,515
Items purchased for resale	68,172	-	-	68,172
Member services	72,346	-	-	72,346
Miscellaneous	4,496	2,998	-	7,494
Office and postage	45,916	9,975	10,607	66,498
Repairs and maintenance	98,892	10,987	-	109,879
Scholarship	5,000	-	-	5,000
Security systems	7,170	-	-	7,170
Staff and board development	800	-	-	800
Telephone	4,540	1,397	1,048	6,985
Utilities	158,764	15,876	1,764	176,404
Website and IT services	4,430	-	492	4,922
Total expenses before depreciation	1,185,505	318,958	185,912	1,690,375
Depreciation and amortization	263,986	26,399	2,933	293,318
Total expenses	<u>\$1,449,491</u>	<u>\$345,357</u>	<u>\$188,845</u>	<u>\$1,983,693</u>

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



CAPE ANN MUSEUM, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (483,542)	\$ 970,049
Adjustments:		
Depreciation and amortization	289,094	293,318
Realized and unrealized (gains) losses on investments	707,965	(1,142,314)
Bad debt expense	-	30,000
Contributions received for long-term purposes	(5,000)	(5,000)
(Increase) decrease in operating assets:		
Unconditional promises to give	21,711	28,959
Prepaid insurance	1,836	(3,099)
Inventory	(4,375)	(9,206)
Deposits	(31,250)	-
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	265,676	7,984
Deferred membership revenue	(9,103)	13,318
CASH PROVIDED BY OPERATING ACTIVITIES	<u>753,012</u>	<u>184,009</u>
INVESTING ACTIVITIES:		
Purchase of property and equipment	(265,151)	(63,420)
Deposits on property and equipment	(31,896)	-
Purchase of investments	(4,639,871)	(6,345,182)
Proceeds from sales of investments	4,663,694	6,368,217
CASH USED BY INVESTING ACTIVITIES	<u>(273,224)</u>	<u>(40,385)</u>
FINANCING ACTIVITIES:		
Contribution to endowment	5,000	5,000
Net proceeds on line of credit	20,000	25,000
Loan repayments on Manship Tortoise	(17,500)	(17,500)
CASH PROVIDED BY FINANCING ACTIVITIES	<u>7,500</u>	<u>12,500</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	487,288	156,124
CASH AND CASH EQUIVALENTS - BEGINNING	540,951	384,827
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,028,239</u>	<u>\$ 540,951</u>
SUPPLEMENTAL DISCLOSURE :		
Interest paid	<u>\$ 6,180</u>	<u>\$ 6,515</u>

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

CAPE ANN MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

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1. OPERATIONS

The Museum, a public, not-for-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.

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. Adoption of new accounting pronouncement

In 2018, the Museum adopted the provisions of FASB ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which reduces the number of classes of net assets reported on the statement of financial positions from three to two, requires investment expenses be netted against investment income, and requires the Organization to disclose the amounts and purposes of board designated net assets either on the face of the statement of financial position or in the notes to the financial statements.

B. Basis of presentation

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.

The Organization is required to report information regarding its financial position and activities based on the existence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – net assets available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions – net assets subject to donor (or certain grantor) imposed restrictions. Some donor or grantor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are permanent in nature, where the donor stipulates that resources be maintained in perpetuity.

CAPE ANN MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. Basis of presentation (continued)

Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions until the restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement activities as net assets released from restriction. Gifts of long-lived assets and cash restricted for the acquisition of long-lived assets are recognized as contributions with donor restrictions when received or acquired and the restriction is released when the assets are placed in service.

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. 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.

F. 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.

G. 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 FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

H. Tax positions and filings

The Museum has been granted tax-exempt status under Internal Revenue Code Section 501(c) (3) and is, therefore, generally exempt from federal and state income taxes. Accordingly, no provision for income taxes has been provided in the accompanying financial statements. The Museum is not a private foundation.

The Museum is required to evaluate or disclose tax positions that could have an effect on the Museum's financial statements. The Museum reports its activities to the Internal Revenue Service and to the Commonwealth of Massachusetts on an annual basis. These informational returns are generally subject to audit and review by the government agencies for a period of three years after filing. Substantially all of the Museum's income, expenditures, and activities relate to its exempt purpose, therefore, management has determined that the Museum is not subject to unrelated business income taxes and will continue to qualify as a tax-exempt not-for-profit entity.

The Museum has filed all of its known required returns in a timely manner including, as permitted, allowed extensions. As of December 31, 2018, the Return of Organization Exempt From Income Tax on Form 990 for the years after 2014 remain open to examination by the Internal Revenue Service and the Massachusetts Attorney General's Office.

I. 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 contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, allocations of expense to functional categories, depreciation and amortization, accrued liabilities, and other reserves. Accordingly, actual results could differ from those estimates.

J. Functional allocation of expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

K. Advertising costs

Advertising costs are charged to operations as incurred. Advertising expense for the years ended December 31, 2018 and 2017 was \$12,820 and \$9,251, respectively.

CAPE ANN MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

3. INVESTMENTS

Investments are presented in the financial statements at fair value and consist of the following at December 31, 2018 and 2017:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents (Note 2)	\$ 256,234	\$ 256,234	\$ 200,828	\$ 200,828
Fixed income securities	4,500,322	4,255,141	4,159,935	4,048,043
Equity	5,393,992	6,373,211	4,948,265	7,367,503
Total	<u>\$10,150,548</u>	<u>\$10,884,586</u>	<u>\$ 9,309,028</u>	<u>\$11,616,374</u>

Investments are restricted as follows:

	2018	2017
Without donor restrictions:		
Board designated endowment	\$ 3,000,000	\$ 2,000,000
Without donor restrictions	5,583,224	7,158,902
Total	<u>8,583,224</u>	<u>9,158,902</u>
With donor restrictions:		
Catalina Davis Fund	127,190	133,048
Margaret Farrell Lynch Fund	721,119	781,117
Edward Hyde Cox Endowment Fund	1,453,053	1,543,307
Total	<u>2,301,362</u>	<u>2,457,472</u>
Total investments	<u>\$ 10,884,586</u>	<u>\$11,616,374</u>
Investment income, net:		
Without donor restrictions	\$ 248,847	\$ 202,527
With donor restrictions	63,443	51,071
Total	<u>312,290</u>	<u>253,598</u>
Unrealized gains (losses):		
Without donor restrictions	(559,486)	931,030
With donor restrictions	(148,479)	211,284
Total	<u>(707,965)</u>	<u>1,142,314</u>
Total investment gain (loss)	<u>\$ (395,675)</u>	<u>\$ 1,395,912</u>

CAPE ANN MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

4. PROPERTY 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, greater than \$1,500, 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>2018</u>	<u>2017</u>
Cape Ann Museum buildings and improvements	\$ 8,584,005	\$ 8,584,005
Sculpture Park - 26 Pleasant Street	624,096	624,096
White-Ellery House and Barn - 247 Washington Street	279,479	236,215
Furniture and fixtures	327,542	318,639
Office and program equipment	127,274	133,876
Collections storage facility	209,021	-
Website and software	117,658	117,658
	<u>10,269,075</u>	<u>10,014,489</u>
Less: Accumulated depreciation and amortization	<u>(4,075,485)</u>	<u>(3,796,956)</u>
Total land, buildings, and equipment	<u>\$ 6,193,590</u>	<u>\$ 6,217,533</u>

For the year ended December 31, 2018 and 2017, depreciation and amortization expense amounted to \$289,094 and \$293,318, respectively. In 2018, equipment and fixtures totaling \$10,570 were deemed obsolete and removed from property and equipment with no gain or loss.

Included in the White-Ellery House and Barn totals includes \$43,264 of barn improvements that were not completed as of December 31, 2018. In addition, the collection storage facility was under construction at December 31, 2018.

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.

CAPE ANN MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

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5. COLLECTIONS (CONT.)

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.

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, 2018 and 2017, respectively.

Loan payment maturities are as follows:

	<u>2018</u>	<u>2017</u>
Current	\$17,500	\$17,500
Long-term	-	<u>17,500</u>
Total	<u>\$17,500</u>	<u>\$35,000</u>

7. DEFERRED MEMBERSHIP REVENUE

Deferred revenue from membership is comprised of memberships from various levels of membership categories paid in advance of expiration.

Deferred revenue from these membership levels amount to \$23,945 and \$33,048 at December 31, 2018 and 2017, respectively.

8. LINE OF CREDIT

The Museum has an available line of credit to draw upon as needed for operating activities. The current terms for this line allow borrowing of up to \$200,000. The line carries a current interest rate of 5.5% and the unpaid balance was \$167,500 and \$147,500 at December 31, 2018 and 2017, respectively.

9. BOARD DESIGNATED ENDOWMENT

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. In December 2018, the Board designated endowment was increased to \$3,000,000. Appropriations of the board designated funds are subject to specific board approval.

CAPE ANN MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

10. NET ASSETS WITH DONOR RESTRICTIONS

A. Specified activities

The Museum received various grants and donations that were donor restricted for their intended purpose. The following summarizes the unexpended balances for these activities at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Collection acquisitions/conservation	\$ 69,647	\$ 27,560
White-Ellery House & Barn restoration/preservation	-	2,120
Education programs	19,320	15,566
Museum buildings construction and improvements	207,717	24,513
Space usage project	-	20,964
Exhibits/ programs	364,380	56,693
Operations support for 2019	93,750	-
	<u>\$ 754,814</u>	<u>\$147,416</u>

B. Capital Campaign

In 2011, the Museum commenced a capital campaign drive which raised \$6,157,000 in funds of which \$1,000,000 was proposed to be allocated to the Board designated endowment. The balance of funds being 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. As of December 31, 2018, the goals of the capital campaign were completed and the \$1,000,000 Board designated endowment was funded.

The Museum held segregated assets totaling \$1,125,050 at December 31, 2017 to satisfy the purposes of the campaign. The actual unexpended balance of the capital campaign donations at December 31, 2017 totaled \$927,491 and was fully expended in 2018.

C. Endowment funds with donor restrictions

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.



CAPE ANN MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

10. NET ASSETS WITH DONOR RESTRICTIONS (CONT.)

The Edward Hyde Cox Endowment Fund was established in April 2000 wherein the capital gains are reinvested and the remainder of net earnings are 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.

The endowment funds activity is summarized as follows:

	Catalina Davis Fund	Margaret Farrell Lynch Fund	Edward Hyde Cox Endowment Fund	Total
December 31, 2016	\$ 115,721	\$ 706,913	\$ 1,427,055	\$2,249,689
Earned income, net	1,950	16,651	32,470	51,071
Net realized/ unrealized gains (losses)	17,671	74,946	118,667	211,284
Current year distributions	<u>(2,294)</u>	<u>(17,393)</u>	<u>(34,885)</u>	<u>(54,572)</u>
December 31, 2017	133,048	781,117	1,543,307	2,457,472
Earned income, net	3,039	21,671	38,733	63,443
Net realized/ unrealized gains (losses)	(5,538)	(57,228)	(85,713)	(148,479)
Current year distributions	<u>(3,359)</u>	<u>(24,441)</u>	<u>(43,274)</u>	<u>(71,074)</u>
December 31, 2018	<u>\$ 127,190</u>	<u>\$ 721,119</u>	<u>\$ 1,453,053</u>	<u>\$2,301,362</u>

The endowment funds 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.

CAPE ANN MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

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11. UNCONDITIONAL PROMISES TO GIVE

At December 31, 2018 and 2017 the Museum had recorded unconditional promises to give totaling \$14,589 and \$36,300 respectively. The use of these promises was restricted to the purposes of the capital campaign as discussed 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. The total discount at December 31, 2018 totaled \$711. Promises to give at December 31, 2017 included amounts from members of the board totaling \$5,000. No allowance for uncollectible promises is deemed necessary.

They are promised as follows:

	<u>2018</u>	<u>2017</u>
2018	\$ -	\$ 36,300
2019	5,300	-
2020	4,713	-
2021	<u>4,576</u>	<u>-</u>
Total	<u>\$ 14,589</u>	<u>\$ 36,300</u>

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 on 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:

CAPE ANN MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

12. FAIR VALUE OF INVESTMENTS (CONT.)

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.

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, 2018:

	<u>Level 1</u>	<u>Level 2</u>
Cash	\$ 6,052	\$ -
Certificate of deposits (maturity dates from February 2019-March 2025)	-	1,121,891
Money market accounts	-	250,183
Fixed income securities	3,133,249	-
Equity	<u>6,373,211</u>	<u>-</u>
Total	<u>\$ 9,512,512</u>	<u>\$ 1,372,074</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, 2017:

	<u>Level 1</u>	<u>Level 2</u>
Cash	\$ 4,956	\$ -
Certificate of deposits (maturity dates 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>

CAPE ANN MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

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13. LIQUIDITY

Financial assets of \$ 1,033,539 and \$577,251, at December 31, 2018 and 2017, respectively, were available for general expenditures in the following year. Included in these totals are net assets with donor restrictions totaling \$754,814 and \$147,416 at December 31, 2018 and 2017, respectively, for the Museum's specified activities for the purposes of funding the various programs and expenditures as they are incurred.

14. UNINSURED DEPOSITS

At December 31, 2018 and 2017, 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.

15. RELATED PARTY TRANSACTIONS

A family member related to an officer of the Museum provided services for building repairs and improvements totaling \$53,900 and \$67,925 at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, amounts due to this related party included in accounts payable were \$44,616 and \$31,241, respectively.

16. RECLASSIFICATIONS

Certain reclassifications have been made to the December 31, 2017 financial statement presentation to correspond to the current year presentation. Total net assets and change in net assets are unchanged due to these reclassifications.

17. COMMITMENTS

In 2018, the Museum began a construction project for the development of a new curatorial center in Gloucester MA. In March 2019, the Museum secured a line of credit for \$3,000,000 to fund this project under contract for a projected cost of \$3,700,000.

In May 2018, the Museum entered into an agreement to purchase custom carpeting for a project under contract for a projected cost of \$33,792. The agreement required a deposit of \$16,896.

In October 2018, the Museum entered into an agreement to have a sculpture designed, created and installed at the museum for a fee of \$125,000. The agreement required a \$31,250 deposit.

In November 2018, the Museum entered into an agreement to purchase a historic property in Gloucester, MA for \$450,000. The agreement required a \$15,000 deposit.

CAPE ANN MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

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18. SUBSEQUENT EVENTS

The Museum has evaluated subsequent events through May 23, 2019, the date which the financial statements were available to be issued.

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