

**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

**NEWPORT ART MUSEUM AND
ART ASSOCIATION
(A NON-PROFIT ORGANIZATION)**

**December 31, 2019
(with summarized financial information
for the preceding year)**

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Farmer & First, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

"Grow Your Business With Us"

Independent Auditors' Report

To the Board of Trustees
Newport Art Museum and Art Association (A Non-Profit Organization)
Newport, R.I.

We have audited the accompanying financial statements of Newport Art Museum and Art Association (a non-profit organization) which comprise the statements of financial position as of December 31, 2019, and the related statements of activities, functional expenses 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 the financial statements in accordance with the 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 the 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 auditors' 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 presentation 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 Newport Art Museum and Art Association as of December 31, 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Newport Art Museum's 2018 financial statements, and we expressed an unmodified audit opinion on these audited financial statements in our report dated May 28, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Farmer & First, PC".

Farmer & First, P.C., CPA's
Warren, Rhode Island

May 19, 2020

Newport Art Museum and Art Association
STATEMENT OF FINANCIAL POSITION

December 31,

(with summarized financial information for the preceding year)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents - temporarily restricted	\$ 18,647	130,931	149,578	\$ 116,201
Marketable securities - acquisition fund	155,532	-	155,532	144,445
Book inventory	6,880	-	6,880	6,980
Pledges receivable	5,100	-	5,100	-
Accounts receivable	18,116	-	18,116	30,265
Prepaid expenses	32,701	-	32,701	41,066
Total current assets	236,976	130,931	367,907	338,957
PROPERTY AND EQUIPMENT:				
Buildings and improvements	8,551,373	-	8,551,373	8,339,512
Furniture and equipment	376,419	-	376,419	362,512
Website and software	85,388	-	85,388	160,948
Total property and equipment	9,013,180	-	9,013,180	8,862,972
Less: accumulated depreciation	5,299,155	-	5,299,155	5,085,680
Property and equipment, net	3,714,025	-	3,714,025	3,777,292
OTHER ASSETS:				
Investments	-	8,133,374	8,133,374	7,096,007
Total other assets	-	8,133,374	8,133,374	7,096,007
TOTAL ASSETS	\$ 3,951,001	\$ 8,264,305	\$ 12,215,306	\$ 11,212,256

The accompanying notes are an integral part of these statements.

Newport Art Museum and Art Association
STATEMENT OF FINANCIAL POSITION (continued)
December 31,
(with summarized financial information for the preceding year)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 38,614	-	38,614	\$ 154,817
Mortgage payable - current	6,837	-	6,837	6,534
Lines of credit	270,103	-	270,103	99,396
Accrued expenses	50,842	-	50,842	77,840
Deferred revenue	48,304	-	48,304	23,147
Total current liabilities	414,700	-	414,700	361,734
LONG-TERM LIABILITIES:				
Mortgage payable, less current portion	160,061	-	160,061	166,785
Total long-term liabilities	160,061	-	160,061	166,785
Total liabilities	574,761	-	574,761	528,519
NET ASSETS:				
Without donor restrictions	3,376,240	-	3,376,240	3,473,919
With donor restrictions	-	8,264,305	8,264,305	7,209,818
Total net assets	3,376,240	8,264,305	11,640,545	10,683,737
TOTAL LIABILITIES AND NET ASSETS	\$ 3,951,001	\$ 8,264,305	\$ 12,215,306	\$ 11,212,256

The accompanying notes are an integral part of these statements.

Newport Art Museum and Art Association
STATEMENT OF ACTIVITIES
For the Years Ended December 31,
(with summarized financial information for the preceding year)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT & REVENUE:				
Foundation and corporate grants	\$ 50,000	\$ 95,500	\$ 145,500	\$ 199,500
Government grants	21,468	178,413	199,881	22,868
Contributions	316,826	137,836	454,662	326,670
Sponsorships	11,329	-	11,329	18,450
Membership	92,435	-	92,435	97,050
Admission	50,558	-	50,558	48,227
Tuition	82,502	-	82,502	127,752
Educational program fees	68,295	-	68,295	75,289
Special events - net of expenses	222,949	8,700	231,649	415,688
Rental income	29,323	-	29,323	45,537
Gift Shop	9,277	-	9,277	7,852
Program income	36,809	-	36,809	35,157
Other income	3,963	-	3,963	1,686
Interest and dividend income	3,471	165,964	169,435	180,069
Transfer from endowment to operating	434,204	(434,204)	-	-
Additions to endowment	(25,000)	25,000	-	-
Net assets released from restrictions	403,329	(403,329)	-	-
Total support and revenue	1,811,738	(226,120)	1,585,618	1,601,795
EXPENSES:				
Program services:				
Education/Outreach	490,597	-	490,597	483,727
Curatorial	584,615	-	584,615	458,565
Other program and museum shop	106,601	-	106,601	151,693
Total program services	1,181,813	-	1,181,813	1,093,985
Supporting services				
Administrative	338,276	40,318	378,594	374,681
Development	414,117	-	414,117	386,628
Total supporting services	752,393	40,318	792,711	761,309
Total expenses	1,934,206	40,318	1,974,524	1,855,294
OTHER GAINS & LOSSES				
Unrealized & realized capital gain (loss) in market value of investments	24,789	1,320,925	1,345,714	(811,798)
Total investing income	24,789	1,320,925	1,345,714	(811,798)
Change in net assets	(97,679)	1,054,487	956,808	(1,065,297)
Net assets, January 1, 2019	3,473,919	7,209,818	10,683,737	11,749,034
Net assets, December 31, 2019	\$ 3,376,240	\$ 8,264,305	\$ 11,640,545	\$ 10,683,737

The accompanying notes are an integral part of these statements.

Newport Art Museum and Art Association
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019
(with summarized financial information for the preceding year)

	2019					2018	
	Program Services			Supporting Services			
Education/ Outreach	Curatorial	Other Program	Total Program Services	Administrative	Development	Total Support	Total Functional Expenses
\$	\$	\$	\$	\$	\$	\$	\$
Salaries	235,198	218,092	40,983	494,273	161,621	373,787	850,600
Payroll taxes	19,741	18,306	3,440	41,487	13,566	31,374	73,146
Employee benefits	15,916	14,758	2,773	33,447	10,937	25,294	54,909
Total payroll and related expenses	270,855	251,156	47,196	569,207	186,124	430,455	978,655
Professional fees & graphic design	21,887	1,728	5,084	28,699	12,495	13,268	66,391
Utilities	21,635	56,059	2,016	79,710	7,952	18,391	79,667
Telephone and computer	5,762	5,343	1,004	12,109	3,959	9,157	11,196
Building maintenance and repairs	19,899	29,555	3,242	52,696	12,272	28,382	62,799
Office supplies	1,980	2,054	184	4,218	610	3,009	11,243
Equipment rental	7,665	2,345	441	10,451	1,737	4,018	16,587
Small equipment	2,494	318		2,812	798	798	2,542
Program materials	19,025	45,250	11,805	76,080	1,959	1,959	32,135
Dues and fees	1,235	3,171	840	5,246	6,134	6,819	16,914
Travel	8,355	3,155	407	11,917	-	-	10,485
Elizabeth Conklin gift shop	-	-	5,132	5,132	-	-	5,005
Postage	1,547	218	60	1,825	2,158	4,636	7,502
Printing	9,580	6,161	1,177	16,918	1,879	7,046	26,390
Awards	-	-	1,500	1,500	-	-	1,150
Insurance	8,456	7,841	2,473	18,770	6,811	14,439	30,961
Advertising and promotion	630	5,699	805	7,134	2,441	2,467	13,099
Receptions	-	-	9,589	9,589	-	-	14,567
Exhibition	-	91,763	-	91,763	-	-	46,229
Bank and investment fees	-	-	-	-	58,306	58,306	58,794
Book expense	-	-	-	-	100	100	54
Grant expenses - non operating	-	-	-	-	-	-	45,500
Scholarships	11,269	-	-	11,269	-	-	5,024
Cultivation and meeting expense	-	79	-	79	1,512	47,470	10,122
Depreciation	78,313	72,617	13,646	164,576	53,815	124,459	291,360
Interest	-	-	-	-	16,981	16,981	9,835
Miscellaneous	10	103	-	113	551	551	1,088
Totals	\$ 490,597	\$ 584,615	\$ 106,601	\$ 1,181,813	\$ 378,594	\$ 792,711	\$ 1,855,294

The accompanying notes are an integral part of these statements.

Newport Art Museum and Art Association
STATEMENT OF CASH FLOWS
For the Years Ended December 31,

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 956,808	\$ (1,065,297)
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation and amortization	289,035	291,360
Realized and unrealized (gains) losses in market value of investments	(1,345,714)	811,798
Decrease (increase) in operating assets:		
Pledges receivable	(5,100)	-
Accounts receivable	12,149	(16,310)
Book inventory	100	54
Prepaid expenses	8,365	4,507
Increase (decrease) in operating liabilities:		
Accounts payable	(116,203)	94,311
Tenant security deposit	-	(1,100)
Accrued expenses	(26,998)	31,316
Deferred revenue	<u>25,157</u>	<u>(14,064)</u>
Net cash provided (used) by operating activities	<u>(202,401)</u>	<u>136,575</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sales (purchases) of property and equipment	(225,768)	(296,514)
Realized and unrealized (gains) losses in market value of investments	1,345,714	(811,798)
Decrease (increase) in investments	<u>(1,048,454)</u>	<u>1,001,533</u>
Net cash provided (used) by investing activities	<u>71,492</u>	<u>(106,779)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) on notes, loans, and mortgage payable	<u>164,286</u>	<u>(63,631)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	33,377	(33,835)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>116,201</u>	<u>150,036</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 149,578</u>	<u>\$ 116,201</u>
Interest paid during the year	<u>\$ 16,981</u>	<u>\$ 9,835</u>

The accompanying notes are an integral part of these statements.

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

(with summarized financial information for the preceding year)

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Newport Art Museum, (the Organization) was founded in 1912 on the belief that art is a civilizing influence and an essential component to creating vibrant communities. By 1915, the organization's enterprising leaders had purchased a suitable building for their art classes and exhibitions—the former John N.A. Griswold House on Bellevue Avenue designed by acclaimed architect Richard Morris Hunt. This was Hunt's first commission in Newport, was completed in 1864 for the Griswold family and has been awarded National Historic Landmark status. Art classes for people of all ages, backgrounds and experience levels were held in the Griswold House, as were temporary art exhibitions and public programs.

In 1920, a second gallery building designed by the New York architectural firm Delano and Aldrich opened just to the south of the Griswold House. The Sarah Rives lobby and Morris Gallery were added in 1990 providing the Museum additional climate-controlled gallery spaces as well as a collection storage area.

Today, the Art Museum's beautiful 3-acre campus includes the Griswold house, the Cushing Gallery and the Coleman Center for Creative Studies, a vibrant center for Museum Education and extensive community arts outreach initiatives.

The Museum's mission is to champion a provocative diversity of creative voices and experiences within a historic Newport setting, thus sparking reflection, inspiration, discovery, and connection to ourselves, our community and our world.

The Museum cares for a collection of over 2,600 art objects, acquires new collection pieces each year, and serves its community through exhibitions, public programs, studio arts education, arts outreach, and preserves its historic buildings, all of which have received regional and national recognition.

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

(with summarized financial information for the preceding year)

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)

Basis of Accounting

The Organization recognizes income on the accrual method of accounting in accordance with the accounting principles generally accepted in the United States of America.

Basis of Presentation

The financial statements of Newport Art Museum and Art Association have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and board of trustees.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature those restrictions will be met by the actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

(with summarized financial information for the preceding year)

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)

Investments

The Organization follows the provisions of FASB ASC 958-320-35 which requires that investments in all equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change in net assets without restrictions unless the income or loss is restricted by donor or law.

Property and Equipment

Property and equipment are stated at cost except for donated property and equipment which is stated at its fair market value at the date of donation. Depreciation is calculated for financial statement purposes using the straight-line method based on the property's estimated life. Additions and improvements that add materially to productive capacity or extend the life of an asset are capitalized.

Normal repairs and maintenance are charged against income. When facilities are retired or sold, their cost and accumulated depreciation are removed from the accounts and related gains or losses are included in income. In case of trade items, any remaining book value increases the basis of the new acquisition.

Buildings and building improvements	5 – 40 yrs.
Furniture and equipment	5 – 10 yrs.

Income Taxes

The Organization is a not-for-profit organization that is generally exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. Income that is not related to exempt purposes, less applicable deductions, is subject to Federal and state corporate income taxes. The Organization did not have any unrelated business income for the years ended December 31, 2019 and 2018.

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

(with summarized financial information for the preceding year)

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)

Fair Value of Financial Instruments

Cash, marketable securities, accounts receivable, accounts payable, accrued liabilities and debt are reflected in the financial statements at carrying amounts which approximate fair value.

Donated Services and Equipment

The Organization records significant donated goods and services at fair market value at the date of donation. Donated goods and services for the years ended December 31, 2019 and 2018 amounted to approximately \$6,000 and \$36,000 respectively.

Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, the Organization considers all unrestricted highly liquid investments, with an initial maturity of three months or less, to be considered cash.

Restricted and Unrestricted Revenue

Contributions received are recorded as unrestricted or restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

(with summarized financial information for the preceding year)

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)

Revenue Recognition

All public support and revenue are considered to be available for unrestricted use unless specifically restricted by grant or donor.

Functional Allocation of Expenses

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

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Collections

Collection items acquired either through a purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted net assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted funds. Contributions of collection items are not recognized in the statement of activities. The Organization's collections are categorized as inexhaustible and under accounting guidelines are not capitalized in the financial statements.

Subsequent Events

Management has evaluated subsequent events through May 19, 2020, the date which the financial statements were available to be issued.

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

(with summarized financial information for the preceding year)

2. NET ACCOUNTS RECEIVABLE

The balance in the Organization's Accounts Receivable as of December 31, 2019 and 2018 consists of:

	2019	2018
Educational Fees	\$ 13,901	\$ 24,093
Other	4,215	6,172
	<u>\$ 18,116</u>	<u>\$ 30,265</u>

The Organization uses the specific identification method in estimating for uncollectible accounts. Bad debts of \$264 and \$0 were recorded for 2019 and 2018, respectively and all receivables were considered collectible at December 31, 2019 and 2018.

3. PROPERTY AND EQUIPMENT

Changes in property and equipment accounts for the years ended December 31, 2019 are summarized as follows:

	12/31/2018	Additions	Disposals	12/31/2019
Buildings and improvements	\$ 8,339,512	\$ 211,861	\$ -	\$ 8,551,373
Furniture and equipment	362,512	13,907	-	376,419
Website and software	160,948	-	(75,560)	85,388
	<u>\$ 8,862,972</u>	<u>\$ 225,768</u>	<u>\$ (75,560)</u>	<u>\$ 9,013,180</u>
Less accumulated depreciation	(5,085,680)	(289,035)	75,560	(5,299,155)
	<u>\$ 3,777,292</u>	<u>\$ (63,267)</u>	<u>\$ -</u>	<u>\$ 3,714,025</u>

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

(with summarized financial information for the preceding year)

3. PROPERTY AND EQUIPMENT (continued)

Changes in property and equipment accounts for the years ended December 31, 2018 are summarized as follows:

	12/31/2017	Additions	Disposals	12/31/2018
Buildings and improvements	\$ 8,094,154	\$ 245,358	\$ -	\$ 8,339,512
Furniture and equipment	353,345	9,166	-	362,512
Website and software	118,960	41,988	-	160,948
	<u>\$ 8,566,459</u>	<u>\$ 296,512</u>	<u>\$ -</u>	<u>\$ 8,862,972</u>
Less accumulated depreciation	(4,794,321)	(291,360)	-	(5,085,680)
	<u>\$ 3,772,138</u>	<u>\$ 5,152</u>	<u>\$ -</u>	<u>\$ 3,777,292</u>

4. MARKETABLE SECURITIES

The Organization's investments have been recorded at fair value in the financial statements. The following represents the Organization's fair value hierarchy for its investments measured at fair value on a recurring basis at December 31, 2019:

	<u>At fair value</u>	
<u>Level 1 Investments</u>	<u>Endowment Fund</u>	<u>Acquisition Fund</u>
Cash	\$ 378,727	\$ 7,658
Equities	5,962,169	113,318
Subtotal	<u>6,340,896</u>	<u>120,956</u>
 <u>Level 2 Investments</u>		
Corporate and government bonds	\$ 1,400,976	\$ 26,916
Real estate and tangible assets	391,502	7,640
Subtotal	<u>1,792,478</u>	<u>34,556</u>
 Total	<u>\$ 8,133,374</u>	<u>\$ 155,532</u>

**Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS**

December 31, 2019

(with summarized financial information for the preceding year)

4. MARKETABLE SECURITIES (continued)

The following represents the Organization's fair value hierarchy for its investments measured at fair value on a recurring basis at December 31, 2018:

	<u>At fair value</u>	
<u>Level 1 Investments</u>	<u>Endowment Fund</u>	<u>Acquisition Fund</u>
Cash	\$ 215,855	\$ 7,266
Equities	5,290,495	90,403
Subtotal	5,506,350	97,669
 <u>Level 2 Investments</u>		
Corporate and government bonds	\$ 1,247,064	\$ 41,502
Real estate and tangible assets	342,593	5,274
Subtotal	1,589,657	46,776
 Total	<u>\$ 7,096,007</u>	<u>\$ 144,445</u>

Investments are split between marketable securities and investments held for long term purposes but are held in one investment account. The split is as follows:

<u>Description</u>	2019	2018
Marketable securities - acquisition fund	\$ 155,532	\$ 144,445
Endowment fund assets	8,133,374	7,096,007
	<u>\$ 8,288,906</u>	<u>\$ 7,240,452</u>

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

(with summarized financial information for the preceding year)

5. MORTGAGE PAYABLE

During November 2011, the Organization renegotiated a secured twenty-five-year loan for \$350,000 through a local bank. Principal and interest shall be paid in equal installments of \$1,189 through November 2036. Interest on the loan is fixed at 4.54% and is to be adjusted every five years based on an amount equal to 2.50% above the Federal Home Loan rate at the time. The balance due at December 31, 2019 and 2018 were \$166,898 and \$173,319, respectively. Principal payments are due as follows:

December 31, 2020	6,837
2021	7,154
2022	7,486
2023	7,833
2024	8,196
Thereafter	<u>129,392</u>
	<u>\$ 166,898</u>

6. LINES OF CREDIT

The Organization has negotiated a \$350,000 line of credit with a local bank. This line of credit bears interest at the bank base rate plus .50% adjusted daily. The line is secured by a second mortgage on the building and a security interest in the Organization's business assets.

During January 2015, the Organization negotiated a second line of credit with an investment company for \$200,000. This line of credit bears interest at the bank's daily floating rate plus 2.75% adjusted daily. The line is secured by the Organization's business assets. At December 31, 2019 and 2018, the outstanding balance on both lines of credit totaled \$270,103 and \$99,396, respectively.

7. BOOK INVENTORY

The Organization and University Press of New England entered into an agreement to publish a book to sell on their website, give away as a promotion, or sell at the Museum. The Organization received 500 copies. The Organization had sold or given away 245 copies at December 31, 2019 and 241 copies at December 31, 2018. The average cost of the books left in inventory was \$27 for a total value of \$6,880 and \$6,980 at December 31, 2019 and 2018, respectively.

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

(with summarized financial information for the preceding year)

8. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at December 31, 2019 and 2018 were composed of the following:

	2019	2018
Operating deficits	\$ (326,419)	\$ (274,499)
Board designated funds for acquisition	155,532	144,445
Property and equipment, net of related debt	3,547,127	3,603,973
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Total	\$ 3,376,240	\$ 3,473,919
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Activity in the board designated funds for acquisition for the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
Funds for acquisition, beginning of year	\$ 144,445	\$ 163,991
Additions and investment income	3,300	3,669
Gain (loss) on market value of investments	24,660	(14,904)
Investment fees	(788)	(842)
Purchase/Restoration of artwork	(16,085)	(7,469)
	<hr/>	<hr/>
Funds for acquisition, end of year	\$ 155,532	\$ 144,445
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Newport Art Museum and Art Association
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9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2019 and 2018 were composed of the following grants or funds:

	2019	2018
Endowment Fund	\$8,133,374	\$7,096,007
Technology Grant	65,000	-
Museum Curatorial Support	29,040	6,500
Artist in Residence Program	19,431	40,000
Wet Paint	8,687	7,488
Cultivation Dinner	6,000	-
Scholarship Fund	1,735	9,956
MET School Arts Advisory Support	1,038	-
Feedback Loop Project	-	23,605
Muse Support	-	20,025
Conservation	-	6,237
	\$8,264,305	\$7,209,818

10. CONTINGENCIES

The Organization has received funding under certain Government funding contracts which obligate it to keep its contract records available for inspection or audit three to five years following the submission of the final contract report. These audits take place at the discretion of the funding source.

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11. FAIR MARKET VALUE OF INSTRUMENTS

The Organization values its investments held for long-term purposes at market value in the financial statements. The Organization had a number of other financial instruments at December 31, 2019 and 2018, none of which were held for trading purposes. The Organization estimates that the fair market value of all financial instruments at December 31, 2019 and 2018 did not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position.

12. FUNDRAISING EVENTS

The Organization's fundraising events for the year ended December 31, 2019 consisted of:

	Income	Expenses	Net
Summer Soiree	\$ 298,185	\$ 145,302	\$ 152,883
Wet Paint	113,830	35,064	78,766
	<u>\$ 412,015</u>	<u>\$ 180,366</u>	<u>\$ 231,649</u>

The Organization's fundraising events for the year ended December 31, 2018 consisted of:

	Income	Expenses	Net
Summer Soiree	\$ 536,194	\$ 213,913	\$ 322,281
Wet Paint	128,745	35,338	93,407
	<u>\$ 664,939</u>	<u>\$ 249,251</u>	<u>\$ 415,688</u>

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13. ENDOWMENT

The Organization's endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Organization has interpreted the State Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Organization classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is not classified in permanently restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of the inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

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13. ENDOWMENT – (continued)

Investment Return Objectives, Risk Parameters and Strategies: The Organization has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities and other investments, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5% while growing the funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 4% to 6% above the rate of inflation as measured by the consumer price index annually. Actual returns in any given year may vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending policy: The Organization has a policy of appropriating the distribution each year of 5% of its endowment fund's average fair value of the prior three years through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects current spending policy to allow its endowment funds to grow at a normal average rate of 4% to 6% above the rate of inflation as measured by the consumer price index annually. This is consistent with the Organization's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

In accordance with the Museum's endowment policy, the Museum withdrew a total of \$295,000 from the endowment fund for operations during the year ended December 31, 2019 and \$320,000 during the year ended December 31, 2018.

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13. ENDOWMENT – (continued)

Changes in endowment net assets as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Endowment net assets, beginning of year	\$ 7,096,007	\$ 8,077,994
Additions and investment income	190,964	176,115
Gain (loss) on market value of investments	1,320,925	(796,894)
Investment fees	(40,318)	(41,208)
Amounts appropriated for expenditure	(295,000)	(320,000)
Amounts appropriated for property and equipment	<u>(139,204)</u>	<u>-</u>
TOTAL	<u>\$ 8,133,374</u>	<u>\$ 7,096,007</u>

Part of the endowment fund at December 31, 2019 and 2018 consists of the van Beuren Charitable Foundation and the McBean Charitable Trust. The US Department of Labor CPI for 2019 and 2018 was 2.3% and 1.9%, respectively. Taking this figure into account, the adjusted historical value of the Griswold Major Maintenance endowment was as follows:

2019

Historical Value	Market Value	Accumulated Increase
\$ 767,747	\$ 985,521	\$ 218,047

2018

Historical Value	Market Value	Accumulated Increase
\$ 750,219	\$ 1,012,216	\$ 261,997

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13. ENDOWMENT – (continued)

The Organization must maintain the historical value of the fund. The difference between the market and historical values as of the years ended 2019 and 2018 would be the maximum the Organization could draw for major maintenance.

14. PENSION PLAN

The Organization has a qualified tax-sheltered annuity pension plan for its eligible employees. Eligible employees earn 2% match of their salary after one year of services. Pension expense was \$4,666 and \$1,155 for the years ended December 31, 2019 and 2018, respectively.

15. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for memberships and a concentration of contributions received near calendar year-end and being in a summer town where the population increases from May through September.

To manage unanticipated liquidity needs the Organization has committed lines of credit in the amount of \$550,000, which it could draw upon. In addition, the Organization has an unrestricted endowment it draws appropriated amounts each year for general expenditures as part of its annual budget.

16. SUBSEQUENT EVENT

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of multiple businesses as well as public schools. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Organization understands this matter may negatively impact its operation results. However, the related financial impact and duration cannot be reasonably estimated at this time.