

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

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

**December 31, 2018
(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 Auditor's 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, 2018, 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.

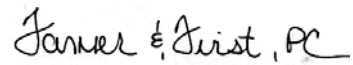
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018, 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 2017 financial, and we expressed an unmodified audit opinion on these audited financial statements in our report dated June 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



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

May 28, 2019

Newport Art Museum and Art Association
STATEMENT OF FINANCIAL POSITION

December 31,

(with summarized financial information for the preceding year)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents - temporarily restricted	\$ 2,390	113,811	116,201	\$ 150,036
Marketable securities	144,445	-	144,445	163,991
Book inventory	6,980	-	6,980	7,034
Accounts receivable	30,265	-	30,265	13,955
Prepaid expenses	41,066	-	41,066	45,573
Total current assets	225,146	113,811	338,957	380,589
PROPERTY AND EQUIPMENT:				
Buildings and improvements	8,339,512	-	8,339,512	8,094,154
Furniture and equipment	362,512	-	362,512	353,345
Website and software	160,948	-	160,948	118,960
Total property and equipment	8,862,972	-	8,862,972	8,566,459
Less: accumulated depreciation	5,085,680	-	5,085,680	4,794,321
Property and equipment, net	3,777,292	-	3,777,292	3,772,138
OTHER ASSETS:				
Investments	-	7,096,007	7,096,007	8,077,994
Total other assets	-	7,096,007	7,096,007	8,077,994
TOTAL ASSETS	\$ 4,002,438	\$ 7,209,818	\$ 11,212,256	\$ 12,230,721

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)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 154,817	-	154,817	\$ 60,506
Mortgage payable - current	6,534	-	6,534	6,952
Lines of credit	99,396	-	99,396	156,893
Accrued expenses	77,840	-	77,840	46,524
Tenant security deposits	-	-	-	1,100
Deferred revenue	23,147	-	23,147	37,211
Total current liabilities	361,734	-	361,734	309,186
LONG-TERM LIABILITIES:				
Mortgage payable, less current portion	166,785	-	166,785	172,501
Total long-term liabilities	166,785	-	166,785	172,501
Total liabilities	528,519	-	528,519	481,687
NET ASSETS:				
Without donor restrictions	3,473,919	-	3,473,919	3,564,064
With donor restrictions	-	7,209,818	7,209,818	8,184,970
Total net assets	3,473,919	7,209,818	10,683,737	11,749,034
TOTAL LIABILITIES AND NET ASSETS	\$ 4,002,438	\$ 7,209,818	\$ 11,212,256	\$ 12,230,721

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)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT & REVENUE:				
Foundation and corporate grants	\$ 30,000	\$ 169,500	\$ 199,500	\$ 134,650
Government grants	21,468	1,400	22,868	21,468
Contributions	223,660	103,010	326,670	470,830
Sponsorships	5,950	12,500	18,450	2,500
Membership	97,050	-	97,050	98,705
Admission	48,227	-	48,227	36,866
Tuition	127,752	-	127,752	129,244
Educational program fees	75,289	-	75,289	87,326
Special events - net of expenses	404,419	11,269	415,688	424,445
Rental income	45,537	-	45,537	37,287
Gift Shop	7,852	-	7,852	22,820
Program income	35,157	-	35,157	49,769
Other income	1,686	-	1,686	467
Interest and dividend income	3,953	176,116	180,069	168,781
Transfer from endowment to operating	320,000	(320,000)	-	-
Net assets released from restrictions	290,844	(290,844)	-	-
	1,738,844	(137,049)	1,601,795	1,685,158
EXPENSES:				
Program services:				
Education/Outreach	483,727	-	483,727	542,148
Curatorial	458,565	-	458,565	445,511
Other program and museum shop	151,693	-	151,693	91,539
Total program services	1,093,985	-	1,093,985	1,079,198
Supporting services				
Administrative	333,472	41,209	374,681	368,207
Development	386,628	-	386,628	341,798
Total supporting services	720,100	41,209	761,309	710,005
Total expenses	1,814,085	41,209	1,855,294	1,789,203
OTHER GAINS & LOSSES				
Gain (loss) on sale of assets	-	-	-	80
Unrealized & realized capital gain (loss) in market value of investments	(14,904)	(796,894)	(811,798)	993,661
Total investing income	(14,904)	(796,894)	(811,798)	993,741
Change in net assets	(90,145)	(975,152)	(1,065,297)	889,696
Net assets, January 1, 2018	3,564,064	8,184,970	11,749,034	10,859,338
Net assets, December 31, 2018	\$ 3,473,919	\$ 7,209,818	\$ 10,683,737	\$ 11,749,034

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, 2018
(with summarized financial information for the preceding year)

	2018							2017	
	Program Services				Supporting Services			Total	Total
	Education/ Outreach	Curatorial	Other Program	Total Program Services	Administrative	Development	Total Support	Functional Expenses	Functional Expenses
Salaries	\$ 222,714	\$ 209,741	\$ 46,426	\$ 478,881	\$ 156,856	\$ 214,863	\$ 371,719	\$ 850,600	\$ 770,165
Payroll taxes	19,152	18,036	3,992	41,180	13,489	18,477	31,966	73,146	70,392
Employee benefits	14,377	13,539	2,997	30,913	10,126	13,870	23,996	54,909	56,715
Total payroll and related expenses	256,243	241,316	53,415	550,974	180,471	247,210	427,681	978,655	897,272
Professional fees & graphic design	40,103	1,943	3,100	45,146	19,746	1,499	21,245	66,391	77,464
Utilities	21,812	37,645	2,244	61,701	7,581	10,385	17,966	79,667	77,124
Telephone and computer	2,931	2,761	611	6,303	2,065	2,828	4,893	11,196	11,837
Building maintenance and repairs	16,538	19,365	2,986	38,889	10,089	13,821	23,910	62,799	64,575
Office supplies	3,608	2,684	379	6,671	1,283	3,289	4,572	11,243	7,971
Equipment rental	8,618	2,662	589	11,869	1,991	2,727	4,718	16,587	24,135
Small equipment	259	390	-	649	1,342	551	1,893	2,542	1,614
Program materials	19,237	6,417	3,030	28,684	3,451	-	3,451	32,135	26,328
Dues and fees	3,876	2,289	865	7,030	5,771	4,113	9,884	16,914	17,238
Travel	9,150	1,335	-	10,485	-	-	-	10,485	10,102
Elizabeth Conklin gift shop	-	-	5,005	5,005	-	-	-	5,005	14,541
Postage	532	376	172	1,080	3,525	2,897	6,422	7,502	11,502
Printing	7,380	8,281	1,116	16,777	2,849	6,764	9,613	26,390	25,030
Awards	-	-	1,150	1,150	-	-	-	1,150	1,300
Insurance	8,107	7,634	1,690	17,431	5,709	7,821	13,530	30,961	30,525
Advertising and promotion	3,162	5,360	1,184	9,706	3,393	-	3,393	13,099	11,513
Receptions	813	-	12,754	13,567	1,000	-	1,000	14,567	11,152
Exhibition	-	46,229	-	46,229	-	-	-	46,229	87,476
Bank and investment fees	-	-	-	-	58,794	-	58,794	58,794	56,818
Book expense	-	-	-	-	54	-	54	54	27
Grant expenses - non operating	-	-	45,500	45,500	-	-	-	45,500	-
Scholarships	5,024	-	-	5,024	-	-	-	5,024	8,013
Cultivation and meeting expense	23	34	-	57	940	9,125	10,065	10,122	15,258
Depreciation	76,287	71,844	15,903	164,034	53,728	73,598	127,326	291,360	285,204
Interest	-	-	-	-	9,835	-	9,835	9,835	13,266
Miscellaneous	24	-	-	24	1,064	-	1,064	1,088	1,918
Totals	\$ 483,727	\$ 458,565	\$ 151,693	\$ 1,093,985	\$ 374,681	\$ 386,628	\$ 761,309	\$ 1,855,294	\$ 1,789,203

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,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,065,297)	\$ 889,696
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation and amortization	291,360	285,204
Realized and unrealized (gains) losses in market value of investments	811,798	(993,741)
Decrease (increase) in operating assets:		
Pledge receivable	-	-
Grants and accounts receivable	(16,310)	3,772
Book inventory	54	27
Prepaid expenses	4,507	(23,481)
Increase (decrease) in operating liabilities:		
Accounts payable	94,311	20,267
Tenant security deposit	(1,100)	100
Accrued expenses	31,316	3,465
Deferred revenue	(14,064)	(4,691)
Net cash provided by operating activities	136,575	180,618
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sales (purchases) of property and equipment	(296,514)	(127,817)
Realized and unrealized (gains) losses in market value of investments	(811,798)	993,741
Decrease (increase) in investments	1,001,533	(835,992)
Net cash provided (used) by investing activities	(106,779)	29,932
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) on notes, loans, and mortgage payable	(63,631)	(163,573)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(33,835)	46,977
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	150,036	103,059
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 116,201	\$ 150,036
Interest paid during the year	\$ 9,835	\$ 13,266

The accompanying notes are an integral part of these statements.

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(with summarized financial information for the preceding year)

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Newport Art Museum and Art Association (the Organization), founded in 1912, is located in Newport, Rhode Island and is organized as a Rhode Island non-profit corporation which is exempt from income tax under section 501(c)(3) of the Internal Revenue Code. The Organization was formed to collect, preserve, exhibit, educate and interpret historic and contemporary visual art of the highest quality, with an emphasis on the rich artistic heritage of Newport, the State of Rhode Island, and Southeastern New England, and the role of that heritage in the art of the United States, for the benefit of the public. It is also known as the Newport Art Museum.

Programs include collections and exhibitions in the Griswold House and Cushing Gallery and an art school in the Gilbert S. Kahn Building offering courses and workshops for students of all ages and children's art programs. The Organization's collections consist of artwork that reflects the rich and varied artistic and cultural heritage of the Newport community and surrounding regions. The Organization maintains a collections policy that addresses collections upkeep, accession and deaccession policies and other aspects of collections management.

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:

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(with summarized financial information for the preceding year)

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

Basis of Presentation (continued)

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, where by 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.

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.

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(with summarized financial information for the preceding year)

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

Property and Equipment (continued)

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.

Building 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, 2018 and 2017.

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, 2018 and 2017 amounted to approximately \$36,000 and \$0, 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.

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(with summarized financial information for the preceding year)

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

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.

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.

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(with summarized financial information for the preceding year)

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

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 28, 2019, the date which the financial statements were available to be issued.

New Accounting Pronouncement

On August 18, 2016 FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

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

December 31, 2018

(with summarized financial information for the preceding year)

2. NET ACCOUNTS RECEIVABLE

The balance in the Organization's Accounts Receivable as of December 31, 2018 and 2017 consists of:

	2018	2017
Educational Fees	\$ 24,093	\$ 10,037
Other	6,172	3,918
	\$ 30,265	\$ 13,955

The Organization uses the specific identification method in estimating for uncollectible accounts. There were no bad debts recorded for 2018 and 2017 and all receivables were considered collectible at December 31, 2018 and 2017.

3. PROPERTY AND EQUIPMENT

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
Building 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
	\$ 8,566,459	\$ 296,512	\$ -	\$ 8,862,972
Less accumulated depreciation	(4,794,321)	(291,360)	-	(5,085,680)
	\$ 3,772,138	\$ 5,152	\$ -	\$ 3,777,292

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

December 31, 2018

(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, 2017 are summarized as follows:

	12/31/2016	Additions	Disposals	12/31/2017
Building and improvements	\$ 7,999,254	\$ 94,900	\$ -	\$ 8,094,154
Furniture and equipment	334,429	18,916	-	353,345
Website and software	104,960	14,000	-	118,960
	\$ 8,438,643	\$ 127,816	\$ -	\$ 8,566,459
Less accumulated depreciation	(4,509,117)	(285,204)	-	(4,794,321)
	<u>\$ 3,929,526</u>	<u>\$ (157,388)</u>	<u>\$ -</u>	<u>\$ 3,772,138</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, 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	<u>5,506,350</u>	<u>97,669</u>
<u>Level 2 Investments</u>		
Corporate and government bonds	\$ 1,247,064	\$ 41,502
Real estate and tangible assets	342,593	5,274
Subtotal	<u>1,589,657</u>	<u>46,776</u>
Total	<u>\$ 7,096,007</u>	<u>\$ 144,445</u>

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

December 31, 2018

(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, 2017:

	<u>At fair value</u>	
<u>Level 1 Investments</u>	<u>Endowment Fund</u>	<u>Acquisition Fund</u>
Cash	\$ 505,951	\$ 3,606
Equities	5,818,356	91,676
Subtotal	6,324,307	95,282
<u>Level 2 Investments</u>		
Corporate and government bonds	\$ 1,546,082	\$ 65,271
Real estate and tangible assets	207,605	3,438
Subtotal	1,753,687	68,709
Total	\$ 8,077,994	\$ 163,991

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>	2018	2017
Marketable securities - acquisition fund	\$ 144,445	\$ 163,991
Endowment fund assets	7,096,007	8,077,994
	\$ 7,240,452	\$ 8,241,985

Newport Art Museum and Art Association
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(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, 2018 and 2017 were \$173,319 and \$179,453, respectively. Principal payments are due as follows:

December 31, 2019	6,534
2020	6,837
2021	7,154
2022	7,486
2023	7,833
Thereafter	<u>137,475</u>
	<u>\$ 173,319</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, 2018 and 2017, the outstanding balance on both lines of credit totaled \$99,396 and \$156,893, 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 241 copies at December 31, 2018 and 239 copies at December 31, 2017. The average cost of the books left in inventory was \$27 for a total value of \$6,980 and \$7,034 at December 31, 2018 and 2017, respectively.

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

December 31, 2018

(with summarized financial information for the preceding year)

8. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at December 31, 2018 and 2017 were composed of the following:

	2018	2017
Operating deficits	\$ (274,499)	\$ (192,613)
Board designated funds for acquisition	144,445	163,991
Property and equipment, net of related debt	3,603,973	3,592,686
	\$ 3,473,919	\$ 3,564,064
Total	\$ 3,473,919	\$ 3,564,064

Activity in the board designated funds for acquisition for the years ended December 31, 2018 and 2017 was as follows:

	2018	2017
Funds for acquisition, beginning of year	\$ 163,991	\$ 152,147
Additions and investment income	3,669	8,311
Gain (loss) on market value of investments	(14,904)	17,633
Investment fees	(842)	(861)
Purchase/Restoration of artwork	(7,469)	(13,239)
Funds for acquisition, end of year	\$ 144,445	\$ 163,991

**Newport Art Museum and Art Association
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9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2018 and 2017 were composed of the following grants or funds:

	2018	2017
Endowment Fund	\$7,096,007	\$8,077,994
Artist in Residence Program	40,000	2,500
Feedback Loop Project	23,605	-
Muse Support	20,025	-
Scholarship Fund	9,956	2,980
Wet Paint	7,488	11,298
Museum Curatorial Support	6,500	-
Conservation	6,237	6,684
Website	-	36,000
Campus Master Plan	-	28,060
Cushing Fire Suppression	-	18,000
Coaching Grant	-	1,454
	<u>\$7,209,818</u>	<u>\$8,184,970</u>

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, 2018 and 2017, none of which were held for trading purposes. The Organization estimates that the fair market value of all financial instruments at December 31, 2018 and 2017 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, 2018 consisted of:

	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
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>

The Organization's fundraising events for the year ended December 31, 2017 consisted of:

	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
Summer Soiree	\$ 491,381	\$ 185,910	\$ 305,471
Wet Paint	152,857	33,883	118,974
	<u>\$ 644,238</u>	<u>\$ 219,793</u>	<u>\$ 424,445</u>

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13. ENDOWMENT

The Organization's endowment consists of approximately fourteen individual funds established for a variety of purposes. The 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 \$320,000 from the endowment fund for operations during the year ended December 31, 2018 and \$290,000 during the year ended December 31, 2017.

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NOTES TO FINANCIAL STATEMENTS**

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13. ENDOWMENT – (continued)

Changes in endowment net assets as of December 31, 2018 and 2017 are as follows:

	2018	2017
Endowment net assets, beginning of year	\$ 8,077,994	\$ 7,253,846
Additions and investment income	176,115	178,041
Gain (loss) on market value of investments	(796,894)	976,028
Investment fees	(41,208)	(39,921)
Amounts appropriated for expenditure	(320,000)	(290,000)
TOTAL	\$ 7,096,007	\$ 8,077,994

Part of the endowment fund at December 31, 2018 and 2017 consists of the van Beuren Charitable Foundation and the McBean Charitable Trust. The US Department of Labor CPI for 2018 and 2017 was 1.9% and 2.1%, respectively. Taking this figure into account, the adjusted historical value of the Griswold Major Maintenance endowment was as follows:

2018

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

2017

Historical Value	Market Value	Accumulated Increase
\$ 736,231	\$ 943,643	\$ 207,412

The Organization must maintain the historical value of the fund. The difference between the market and historical values as of the years ended 2018 and 2017 would be the maximum the Organization could draw for major maintenance.

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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 \$1,155 and \$1,067 for the years ended December 31, 2018 and 2017, 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.