

## Contents

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<b>Independent Accountants' Review Report</b> .....	1
<b>Comparative Financial Statements:</b>	
Statements of Financial Position .....	2
Statements of Activities .....	3
Statements of Functional Expenses .....	4
Statements of Cash Flows .....	5
<b>Notes to Financial Statements</b> .....	6-11

## **Independent Accountants' Review Report**

To the Board of Directors of  
**Nichols House Museum, Inc.**  
(a nonprofit organization)

We have reviewed the accompanying statements of financial position of **Nichols House Museum, Inc.** as of January 31, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

March 26, 2014

**Nichols House Museum, Inc.**  
**Statements of Financial Position**  
**January 31, 2014 and 2013**

	<b><u>2014</u></b>	<b><u>2013</u></b>
<b><u>Assets</u></b>		
<b><u>Current Assets</u></b>		
Cash and cash equivalents	111,077	113,622
Grants receivable	82,377	36,745
Inventory	<u>27,049</u>	<u>29,153</u>
Total current assets	<u>220,503</u>	<u>179,520</u>
<b><u>Investments, at market</u></b>	<u>1,450,471</u>	<u>1,443,298</u>
<b><u>Property and Equipment</u></b>		
Buildings	587,195	587,195
Building improvements	493,972	493,972
Land	160,000	160,000
Furniture & fixtures	18,000	18,000
Office equipment	<u>14,036</u>	<u>14,036</u>
Subtotal	1,273,203	1,273,203
Accumulated depreciation	<u>(879,559)</u>	<u>(859,966)</u>
Total property and equipment	<u>393,644</u>	<u>413,237</u>
<b><u>Total Assets</u></b>	<u>2,064,618</u>	<u>2,036,055</u>
<b><u>Liabilities and Net Assets</u></b>		
<b><u>Current Liabilities</u></b>		
None		
<b><u>Net Assets</u></b>		
Unrestricted net assets	1,847,747	1,868,441
Temporarily restricted net assets	196,871	147,614
Permanently restricted net assets	<u>20,000</u>	<u>20,000</u>
Total net assets	<u>2,064,618</u>	<u>2,036,055</u>
<b><u>Total Liabilities and Net Assets</u></b>	<u>2,064,618</u>	<u>2,036,055</u>

See independent accountants' review report and accompanying notes.

**Nichols House Museum, Inc.**  
**Statements of Activities**  
**For the Years Ended January 31, 2014 and 2013**

	<b><u>2014</u></b>	<b><u>2013</u></b>
<b><u>Revenues and Support</u></b>		
Contributions	55,076	46,128
Special events revenue, net of expenses	75,841	68,715
Membership dues	43,998	50,175
Admissions	23,848	23,564
Other income	8,782	13,338
Investment income	51,176	66,831
Realized and unrealized gains on investments	15,007	30,497
Net assets released from restrictions	<u>39,469</u>	<u>16,805</u>
Total Revenues and Support	<u>313,197</u>	<u>316,053</u>
<b><u>Expenses</u></b>		
Program	207,224	146,841
Management and general	97,448	107,180
Fundraising and development	<u>29,219</u>	<u>26,847</u>
Total Expenses	<u>333,891</u>	<u>280,868</u>
<b><u>Changes in Unrestricted Net Assets</u></b>	<u>(20,694)</u>	<u>35,185</u>
<b><u>Changes in Temporarily Restricted Net Assets</u></b>		
Revenues		
Contributions	88,726	31,400
Less: net assets released from restrictions	<u>(39,469)</u>	<u>(16,805)</u>
<b><u>Changes in Temporarily Restricted Net Assets</u></b>	<u>49,257</u>	<u>14,595</u>
<b><u>Changes in Net Assets</u></b>	28,563	49,780
<b><u>Net Assets, Beginning</u></b>	<u>2,036,055</u>	<u>1,986,275</u>
<b><u>Net Assets, Ending</u></b>	<u>2,064,618</u>	<u>2,036,055</u>

See independent accountants' review report and accompanying notes.

**Nichols House Museum, Inc.**  
**Statements of Functional Expenses**  
**For the Years Ended January 31, 2014 and 2013**

	<b><u>Program</u></b>	<b><u>Management and General</u></b>	<b><u>Fundraising and Development</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Wages, benefits and payroll taxes	114,498	24,535	24,535	163,568	139,306
Fundraiser expense	-	-	39,668	39,668	29,231
Depreciation	-	19,593	-	19,593	24,731
Professional fees	-	10,460	-	10,460	14,775
Administration	-	11,543	-	11,543	14,018
House expense	15,377	-	-	15,377	13,717
Preservation fund	56,120	-	-	56,120	11,000
Collection management	3,815	-	-	3,815	9,949
Program and lecture	7,016	-	-	7,016	8,057
Utilities	-	11,305	-	11,305	7,908
Bad debt expense	-	-	-	-	7,000
Marketing	-	7,748	-	7,748	6,952
Contract labor	7,295	-	-	7,295	6,546
Insurance	-	7,175	-	7,175	6,176
Membership expense	-	-	4,684	4,684	5,138
Function expense	-	-	2,982	2,982	2,852
Subscriptions and dues	-	2,359	-	2,359	1,819
General expenses	3,103	-	-	3,103	1,684
Payroll fees	-	1,027	-	1,027	1,029
Professional education and development	-	998	-	998	536
Taxes	-	276	-	276	366
Investment transaction fees	-	429	-	429	161
Total Expenses	<u>207,224</u>	<u>97,448</u>	<u>71,869</u>	<u>376,541</u>	<u>312,951</u>
Less expenses included with revenues and support on the statement of activities	-	-	(42,650)	(42,650)	(32,083)
<b>Total Expenses</b>	<u><u>207,224</u></u>	<u><u>97,448</u></u>	<u><u>29,219</u></u>	<u><u>333,891</u></u>	<u><u>280,868</u></u>

See independent accountants' review report and accompanying notes.

**Nichols House Museum, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended January 31, 2014 and 2013**

	<b><u>2014</u></b>	<b><u>2013</u></b>
<b><u>Cash Provided by/(Applied to) Operating Activities</u></b>		
Changes in Net Assets	28,563	49,780
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	19,593	24,731
Realized and unrealized gains on investments	<u>(15,007)</u>	<u>(30,497)</u>
Adjusted net income	33,149	44,014
Changes in operating assets and liabilities		
Pledges receivable	0	27,000
Grants receivable	(45,632)	(25,000)
Inventory	2,104	(885)
Accounts payable	<u>0</u>	<u>(9,363)</u>
Net cash provided by/(applied to) operating activities	<u>(10,379)</u>	<u>35,766</u>
<b><u>Cash Provided by/(Applied to) Investing Activities</u></b>		
Proceeds/(purchases) of investments	7,834	(17,571)
Acquisition of property and equipment	<u>0</u>	<u>0</u>
Net cash provided by/(applied to) investing activities	<u>7,834</u>	<u>(17,571)</u>
<b><u>Increase/(Decrease) in Cash</u></b>	(2,545)	18,195
<b><u>Cash at Beginning of Year</u></b>	<u>113,622</u>	<u>95,427</u>
<b><u>Cash at End of Year</u></b>	<u>111,077</u>	<u>113,622</u>

See independent accountants' review report and accompanying notes.

**Nichols House Museum, Inc.**  
**Notes to Financial Statements**  
**January 31, 2014 and 2013**

Note 1- **Summary of Significant Accounting Policies**

**Nature of Activities**

The organization is a not-for-profit institution established in 1962 in accordance with the will of Rose Standish Nichols, a landscape designer, suffragist, and pacifist. The organization preserves the 1804 townhouse, located on Beacon Hill in Boston, Massachusetts, whose architecture is attributed to Charles Bulfinch. The museum is furnished with antiquities and artwork of the 19th and early 20th centuries and is open to the general public.

**Income Taxes**

The organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

**Basis of Accounting**

The organization prepares its financial statements on the accrual basis of accounting.

**Financial Statements Presentation**

The organization prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117 **Financial Statements of Not-for-Profit Organizations**. Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions and grants received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

**Promises to Give**

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

**Grants and Pledges Receivable**

Grants and pledges receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants receivable or pledges receivable. Changes in the valuation allowance have not been material to the financial statements.

**Nichols House Museum, Inc.**  
**Notes to Financial Statements**  
**January 31, 2014 and 2013**

Note 1- **Summary of Significant Accounting Policies (continued)**

**Investments and Investment Income**

Investments in marketable equity and debt securities with readily determinable fair values are carried at their fair values in the statements of financial position. Gains and losses are included in the change in net assets in the accompanying statement of activities. Investment income and gains restricted by donors are reported as increases in temporarily restricted net assets. When the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished), they are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

**Inventory**

The Organization operates a gift shop for the convenience of its visitors. Gift shop inventory is stated at the lower of cost or market determined by the first in, first out method.

**Property and Equipment**

All acquisitions of property and equipment in excess of \$1,500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the assets. Estimated useful lives are five years for office equipment, ten years for furniture and fixtures, and thirty years for the historical building and building improvements.

**Collections**

Collection items consist of art objects that are held for educational and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. During the year ended January 31, 2012, the Organization changed its method of accounting for collection items acquired either through purchase or donation as these items are no longer capitalized. Prior to the year ended January 31, 2012, the Organization capitalized its collections. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the statement of activities. Proceeds from de-accessions or insurance recoveries are reflected on the statement of activities based on the absence or existence and nature of donor-imposed restrictions. Collection items are protected, kept unencumbered, cared for, and preserved.



**Nichols House Museum, Inc.**  
**Notes to Financial Statements**  
**January 31, 2014 and 2013**

Note 1- **Summary of Significant Accounting Policies (continued)**

**Donated Assets and Services**

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair value at the date of donation. There were no assets donated to the Organization during the years ended January 31, 2014 and 2013.

Donated services are recognized as contributions if the services a) create or enhance nonfinancial assets or b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under GAAP were not met.

**Advertising**

The Organization expenses advertising costs as incurred. Advertising expense amounted to \$7,748 and \$6,952 for the years ended January 31, 2014 and 2013, respectively.

**Commitments and Contingencies**

Grants, bequests and endowments often require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of funds to the grantors. Although the return of funds is a possibility, the Board of Directors deems the contingency unlikely, since by accepting the gifts and their terms, it has made a commitment to fulfill the provisions of the gift.

**Endowment**

The Organization's endowment consists of donor-restricted endowment funds as indicated in Note 6. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Donor-Restricted Endowment Assets**

The Commonwealth of Massachusetts adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") effective June 30, 2009. The Organization's policies as to the classification and appropriation of donor-restricted endowment funds are described below and are consistent with the requirements of UPMIFA. The Organization classifies as permanently restricted assets (a) the original value of 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's gift instructions at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted assets is classified as temporarily restricted assets until those amounts are appropriated for expenditure by the Organization.

**Nichols House Museum, Inc.**  
**Notes to Financial Statements**  
**January 31, 2014 and 2013**

Note 1- **Summary of Significant Accounting Policies (continued)**

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 fund,
- (2) The Organization's mission and purpose of the donor-restricted endowment funds,
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of the Organization,
- (7) The investment policies of the Organization.

**Spending Policy**

The Organization has a policy of appropriating for distribution each year 4 percent of the average of its endowment assets for the last three years, based on the monthly ending endowment balance. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of one percent annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional growth through new gifts and investment return.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents**

The organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Note 2- **Grants and Pledges Receivable**

Grants and pledges consist of pledges from individuals and corporations as well as grants from federal agencies. Management believes that these receivables are collectible and therefore, no allowance for doubtful accounts has been recorded.

**Nichols House Museum, Inc.**  
**Notes to Financial Statements**  
**January 31, 2014 and 2013**

Note 3- **Property and Equipment**

Acquisitions are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets.

Note 4- **Fair Value Measurement**

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Basis of Fair Value Measurement**

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable;

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. As of January 31, 2014 and 2013, all of the Organization's investments are Level 1 assets.

Note 5- **Retirement Plan**

The Organization established a simplified employee pension plan that allows eligible employees to contribute to the plan. Employees are allowed to make contributions to the plan subject to a yearly maximum as allowed by the Internal Revenue Service. During the years ended January 31, 2014 and 2013, the Organization's contributions to the plan totaled \$4,572 and \$4,600 respectively.

**Nichols House Museum, Inc.**  
**Notes to Financial Statements**  
**January 31, 2014 and 2013**

Note 6- **Restrictions on Net Assets**

As of January 31, 2014 and 2013, the balance of temporarily and permanently restricted net assets is comprised of the following:

<b>Temporarily Restricted Net Assets</b>		
Restoration of historic building	\$144,494	\$ 110,869
Special projects	25,000	25,000
Preservation of museum collection	0	11,745
IMLS grant	<u>27,377</u>	<u>0</u>
	<b><u>\$196,871</u></b>	<b><u>\$147,614</u></b>
<b>Permanently Restricted Net Assets</b>		
Purchase of flowers for historic building	<u>\$ 20,000</u>	<u>\$ 20,000</u>

Note 7- **Concentration of Credit Risk**

At times during the year, the organization maintains deposits in excess of federally insured limits. Statement of Financial Accounting Standards (SFAS) No. 105 **Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk** identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The amounts in excess of federally insured limits, if held in Massachusetts-chartered savings banks, are insured by the Depositors Insurance Fund (DIF). As of January 31, 2014, the cash balances did not exceed the limits insured by either FDIC or DIF.

Note 8- **Subsequent Events**

The organization has evaluated subsequent events through March 26, 2014, the date that the financial statements were available to be issued.