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NICHOLS HOUSE MUSEUM, INC.

FINANCIAL STATEMENTS

JANUARY 31, 2013

2013

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2013

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Independent Accountants' Review Report

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

We have reviewed the accompanying statement of financial position of **Nichols House Museum, Inc.** (a nonprofit organization) as of January 31, 2013 and the related statement of activities, statement of functional expenses and statement of cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the organization's 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 as a whole. Accordingly, we do not express such an opinion. The 2012 financial statements of **Nichols House Museum, Inc.** were reviewed by other accountants, whose report dated May 5, 2012, stated that based on their procedures, they are not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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.

Bacall + Conniff, P.C.

April 18, 2013

Nichols House Museum, Inc.
Statements of Financial Position
January 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
<u>Current Assets</u>		
Cash and cash equivalents	113,620	95,424
Grants receivable	36,745	11,745
Pledges receivable	0	27,000
Inventory	29,153	28,268
Total current assets	<u>179,518</u>	<u>162,437</u>
<u>Investments, at market</u>	<u>1,443,298</u>	<u>1,395,231</u>
<u>Property and Equipment</u>		
Buildings	587,195	587,195
Building improvements	493,972	493,972
Land	160,000	160,000
Furniture & fixtures	18,000	18,000
Office equipment	14,036	14,036
Subtotal	<u>1,273,203</u>	<u>1,273,203</u>
Accumulated depreciation	<u>(859,966)</u>	<u>(835,235)</u>
Total property and equipment	<u>413,237</u>	<u>437,968</u>
<u>Total Assets</u>	<u>2,036,053</u>	<u>1,995,636</u>
<u>Liabilities and Net Assets</u>		
<u>Current Liabilities</u>		
Accounts payable	<u>0</u>	<u>9,363</u>
Total current liabilities	<u>0</u>	<u>9,363</u>
<u>Net Assets</u>		
Unrestricted net assets	1,868,439	1,833,254
Temporarily restricted net assets	147,614	133,019
Permanently restricted net assets	20,000	20,000
Total net assets	<u>2,036,053</u>	<u>1,986,273</u>
<u>Total Liabilities and Net Assets</u>	<u>2,036,053</u>	<u>1,995,636</u>

See independent accountants' review report and accompanying notes.

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Nichols House Museum, Inc.
Statements of Activities
For the Years Ended January 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>Revenues and Support</u>		
Contributions	46,128	46,510
Special events revenue, net of expenses	68,715	59,456
Membership dues	50,175	43,801
Admissions	23,564	22,964
Other income	13,338	15,378
Investment income	66,831	83,776
Realized and unrealized gains on investments	30,497	8,243
Net assets released from restrictions	<u>16,805</u>	<u>230,455</u>
Total Revenues and Support	<u>316,053</u>	<u>510,583</u>
<u>Expenses</u>		
Program	146,841	215,954
Management and general	107,180	92,017
Fundraising and development	<u>26,847</u>	<u>28,580</u>
Total Expenses	<u>280,868</u>	<u>336,551</u>
<u>Changes in Unrestricted Net Assets</u>	<u>35,185</u>	<u>174,032</u>
<u>Changes in Temporarily Restricted Net Assets</u>		
Revenues		
Contributions	31,400	119,685
Less: net assets released from restrictions	<u>(16,805)</u>	<u>(230,455)</u>
<u>Changes in Temporarily Restricted Net Assets</u>	<u>14,595</u>	<u>(110,770)</u>
<u>Changes in Net Assets</u>	<u>49,780</u>	<u>63,262</u>
<u>Net Assets, Beginning</u>	<u>1,986,273</u>	<u>1,923,011</u>
<u>Net Assets, Ending</u>	<u><u>2,036,053</u></u>	<u><u>1,986,273</u></u>

See independent accountants' review report and accompanying notes.

Nichols House Museum, Inc.
Statements of Functional Expenses
For the Years Ended January 31, 2013 and 2012

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>2013</u>	<u>2012</u>
Wages, benefits and payroll taxes	95,888	21,709	21,709	139,306	136,057
Fundraiser expense	-	-	29,231	29,231	28,811
Depreciation	-	24,731	-	24,731	20,806
Professional fees	-	14,775	-	14,775	11,950
Administration	-	14,018	-	14,018	13,434
House expense	13,717	-	-	13,717	9,707
Preservation fund	11,000	-	-	11,000	91,124
Collection management	9,949	-	-	9,949	4,999
Program and lecture	8,057	-	-	8,057	5,760
Utilities	-	7,908	-	7,908	9,855
Bad debt expense	-	7,000	-	7,000	-
Marketing	-	6,952	-	6,952	4,356
Contract labor	6,546	-	-	6,546	6,126
Insurance	-	6,176	-	6,176	5,612
Membership expense	-	-	5,138	5,138	8,171
Function expense	-	-	2,852	2,852	3,217
Subscriptions and dues	-	1,819	-	1,819	1,427
General expenses	1,684	-	-	1,684	2,127
Payroll fees	-	1,029	-	1,029	459
Professional education and development	-	536	-	536	2,946
Taxes	-	366	-	366	546
Investment transaction fees	-	161	-	161	217
Bicentennial Fund Projects	-	-	-	-	872
Total Expenses	<u>146,841</u>	<u>107,180</u>	<u>58,930</u>	<u>312,951</u>	<u>368,579</u>
Less expenses included with revenues and support on the statement of activities	<u>-</u>	<u>-</u>	<u>(32,083)</u>	<u>(32,083)</u>	<u>(32,028)</u>
Total Expenses	<u><u>146,841</u></u>	<u><u>107,180</u></u>	<u><u>26,847</u></u>	<u><u>280,868</u></u>	<u><u>336,551</u></u>

See independent accountants' review report and accompanying notes.

Nichols House Museum, Inc.
Statements of Cash Flows
For the Years Ended January 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>Cash Provided by Operating Activities</u>		
Changes in Net Assets	49,780	63,262
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	24,731	20,806
Realized and unrealized gains on investments	<u>(30,497)</u>	<u>(8,243)</u>
Adjusted net income	44,014	75,825
Changes in operating assets and liabilities		
Pledges receivable	27,000	(13,000)
Grants receivable	(25,000)	8,905
Inventory	(885)	(26,363)
Accounts payable	<u>(9,363)</u>	<u>(12,050)</u>
Net cash provided by operating activities	<u>35,766</u>	<u>33,317</u>
<u>Cash (Applied to) Investing Activities</u>		
Proceeds/(purchases) of investments	(17,570)	(22,332)
Acquisition of property and equipment	<u>0</u>	<u>(2,830)</u>
Net (applied to) investing activities	<u>(17,570)</u>	<u>(25,162)</u>
<u>Increase in Cash</u>	18,196	8,155
<u>Cash at Beginning of Year</u>	<u>95,424</u>	<u>87,269</u>
<u>Cash at End of Year</u>	<u>113,620</u>	<u>95,424</u>

See independent accountants' review report and accompanying notes.

Nichols House Museum, Inc.
Notes to Financial Statements
January 31, 2013 and 2012

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, 2013 and 2012

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; see Note 9. 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, 2013 and 2012

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, 2013 and 2012.

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 \$6,952 and \$4,356 for the years ended January 31, 2013 and 2012, 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 5 individual, 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, 2013 and 2012

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 1 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, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012, the Organization's contributions to the plan totaled \$4,600 and \$5,000 respectively.

Nichols House Museum, Inc.
Notes to Financial Statements
January 31, 2013 and 2012

Note 6- **Restrictions on Net Assets**

As of January 31, 2013 and 2012, the balance of temporarily and permanently restricted net assets is comprised of the following:

Temporarily Restricted Net Assets		
Restoration of historic building	\$110,869	\$ 94,274
Special projects	25,000	20,000
Preservation of museum collection	11,745	11,745
Kitchen fund	<u>0</u>	<u>7,000</u>
	<u>\$147,614</u>	<u>\$133,019</u>
Permanently Restricted Net Assets		
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, 2013, 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 April 18, 2013, the date that the financial statements were available to be issued.

Note 9- **Change in Accounting Principle**

During the year ended January 31, 2012, the Organization changed its accounting policy for collections. Up until the year ended January 31, 2012, the Organization had been capitalizing its collections, recording the collections on the statements of financial position. To more clearly present the Organization's assets, the Organization changed accounting principles which allows for collections to not be capitalized. As a result, beginning net assets of the Organization as of February 1, 2010 were decreased by \$448,251.