

NEWPORT HISTORICAL SOCIETY

* * * * *

Financial Statements

December 31, 2019

Mullen Scorpio Cerilli

**Certified Public Accountants
Business Consultants**

Mullen Scorpio Cerilli

NEWPORT HISTORICAL SOCIETY

Table of Contents

	<i>Page Number</i>
Independent Auditor's Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-18

Mullen Scorpio Cerilli

Certified Public Accountants
Business Consultants

67 Cedar Street, Suite 106
Providence, Rhode Island 02903
401-751-3860
401-751-3987 Fax
www.mullenscorpicerilli.com

Independent Auditor's Report

To the Board of Directors of
Newport Historical Society

We have audited the accompanying financial statements of Newport Historical Society (a Rhode Island nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

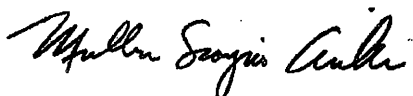
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Mullen Scorpio Cerilli

Newport Historical Society

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newport Historical Society as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



September 13, 2021
Providence, Rhode Island

NEWPORT HISTORICAL SOCIETY

Statement of Financial Position

December 31, 2019

	Assets	<u>2019</u>
Current assets:		
Cash and cash equivalents		\$ 68,106
Accounts receivable, net		10,124
Inventory		115,391
Prepaid expenses		<u>18,968</u>
Total current assets		<u>212,589</u>
Noncurrent assets:		
Property and equipment, net		2,691,183
Cash restricted to endowment		21,169
Investments		4,653,661
Beneficial interest in perpetual trusts		<u>631,881</u>
Total noncurrent assets		<u>7,997,894</u>
Total assets		<u><u>\$ 8,210,483</u></u>
	Liabilities and Net Assets	
Current liabilities:		
Accounts payable		\$ 80,034
Accrued payroll and taxes		8,190
Accrued interest		8,250
Deferred revenue		4,500
Line of credit		<u>40,437</u>
Total current liabilities		<u>141,411</u>
Noncurrent liabilities:		
Loan payable to endowment		<u>150,000</u>
Total noncurrent liabilities		<u>150,000</u>
Total liabilities		<u>291,411</u>
Net assets:		
Without donor restrictions		3,360,391
With donor restrictions		<u>4,558,681</u>
Total net assets		<u>7,919,072</u>
Total liabilities and net assets		<u><u>\$ 8,210,483</u></u>

See accompanying notes to the financial statements.

NEWPORT HISTORICAL SOCIETY

Statement of Activities

For the Year Ended December 31, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and expenses:			
Revenues and other support:			
Membership dues	\$ 43,440	\$ -	\$ 43,440
Contributions and grants	374,620	56,250	430,870
Admissions and tours	75,671	-	75,671
Education sales	207,244	-	207,244
Reproduction and other fees	5,242	-	5,242
Property rental	29,250	-	29,250
Special events, net	333,155	-	333,155
Other income	9,706	-	9,706
Investment return designated for current operations	37,155	132,845	170,000
Total revenues and other support	1,115,483	189,095	1,304,578
Reclassification - net assets released from restrictions	240,886	(240,886)	-
Total revenue and reclassifications	1,356,369	(51,791)	1,304,578
Expenses:			
Education	172,635	-	172,635
Library and Collections	236,441	-	236,441
Properties	258,786	-	258,786
Tours Retail	224,266	-	224,266
General and administrative	296,647	-	296,647
Development	278,912	-	278,912
Total expenses	1,467,687	-	1,467,687
Income (loss) from operations	(111,318)	(51,791)	(163,109)
Nonoperating activities:			
Contributions restricted to perpetual endowment	-	150,000	150,000
Interest on bank accounts	13	-	13
Investment return less amounts designated for current operations, net of investment fees	134,481	465,686	600,167
Change in value of beneficial interest in perpetual trust	-	86,194	86,194
Reclassification - net assets released from restrictions	23,448	(23,448)	-
Total nonoperating activities	157,942	678,432	836,374
Change in net assets	46,624	626,641	673,265
Net assets, beginning of year	3,313,767	3,932,040	7,245,807
Net assets, end of year	\$ 3,360,391	\$ 4,558,681	\$ 7,919,072

See accompanying notes to the financial statements.

NEWPORT HISTORICAL SOCIETY
Statement of Functional Expenses
For the Year Ended December 31, 2019

	2019					Total Expenses
	Education	Library and Collections	Properties	Tours Retail	General and Administrative	
Salaries and related expenses:						
Salaries	\$ 77,068	\$ 177,129	\$ 42,203	\$ 80,266	\$ 179,186	\$ 612,207
Fringe benefits	6,078	24,865	5,924	11,268	25,154	81,200
Payroll taxes	10,819	13,969	3,328	6,330	14,131	53,021
Total salaries and related expenses	93,965	215,963	51,455	97,864	218,471	746,428
Administrative and other expenses:						
Supplies and materials	2,347	2,347	-	84	2,347	9,472
Program expense	18,303	-	-	-	-	18,303
Collection purchases	-	2,146	-	-	-	2,146
Cost of sales	-	-	-	110,204	-	110,204
Equipment rental	1,047	1,047	-	-	1,047	69,301
Printing and publications	25,616	-	-	-	-	25,616
Postage and freight	1,514	505	-	-	1,514	5,047
Marketing and development	-	-	-	-	-	19,086
Professional fees	10,260	-	8,795	-	21,725	124,176
Utilities	-	-	45,077	-	-	45,077
Telephone	2,739	2,739	1,370	1,370	2,739	13,696
Repairs and maintenance	-	-	38,194	-	-	38,194
Security	-	-	8,596	-	-	8,596
Insurance	-	8,265	20,662	-	12,397	41,324
Use of Space	12,000	-	1,975	-	-	25,475
Travel	277	183	-	290	613	2,518
Technology and equipment	3,466	1,733	-	-	1,733	8,665
Meals and entertainment	1,101	-	-	-	2,345	4,170
Dues, licenses and fees	-	470	-	143	767	1,630
Professional development	-	1,043	-	-	-	1,043
Bank charges and miscellaneous	-	-	-	14,311	20,912	40,887
Total administrative and other expenses	78,670	20,478	124,669	126,402	68,139	614,626
Depreciation	-	-	82,662	-	10,037	106,633
Total expenses	\$ 172,635	\$ 236,441	\$ 258,786	\$ 224,266	\$ 296,647	\$ 1,467,687

NEWPORT HISTORICAL SOCIETY

Statement of Cash Flows

December 31, 2019

	<u>2019</u>
Cash flows from operating activities:	
Change in net assets	\$ 673,265
Adjustments to reconcile total change in net assets to net cash used by operating activities:	
Depreciation	106,633
Realized (gains) losses on investments	(57,755)
Unrealized (gains) losses on investments	(702,022)
Net (gains) losses on beneficial interest in perpetual trusts	(86,194)
Contributions restricted to perpetual endowment	(150,000)
Changes in current assets and liabilities:	
Accounts receivable	(2,742)
Contribution receivable	53,000
Inventory	(1,434)
Prepaid expenses	357
Accounts payable	(16,481)
Refundable advance	(58,354)
Accrued payroll and taxes	(22,411)
Accrued interest	8,250
Deferred revenue	500
	<u>(255,388)</u>
Net cash used by operating activities	
Cash flows from investing activities:	
Acquisition of property and equipment	(41,903)
Proceeds from sale of investments	823,030
Purchase of investments	<u>(639,972)</u>
Net cash provided by investing activities	<u>141,155</u>
Cash flows from financing activities:	
Payments on line of credit	(13,059)
Contributions restricted to perpetual endowment	<u>150,000</u>
Net cash provided by financing activities	<u>136,941</u>
Net increase in cash and cash equivalents	22,708
Cash and cash equivalents, beginning of year	<u>66,567</u>
Cash and cash equivalents, end of year	<u><u>\$ 89,275</u></u>
Interest paid	\$ 15,606

See accompanying notes to the financial statements.

NEWPORT HISTORICAL SOCIETY

Notes to Financial Statements

December 31, 2019

Note 1 - Description of Organization

Newport Historical Society (the Society) is a Rhode Island not-for-profit corporation whose primary mission is to collect and preserve artifacts, photographs and documents related to the history of Newport Country its unique contribution to our national narrative. The mission of the Newport Historical Society is also to chronicle and interpret this history for a broad audience, so that knowledge of our past will contribute to a deeper understanding of the present and better preparation for the future. The Society maintains a library, museum, research facility and an active program of public history activities.

Note 2 - Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The financial statements of the Society have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which requires the Society 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 Society. These net assets may be used at the discretion of the Society's management and the board of directors.

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 actions of the Society 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 increased 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 statement of activities.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Society's ongoing program service and interest earned on savings accounts. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Note 2 continued on the next page.

Note 2 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Society's cash consists of cash on deposit with banks. Cash restricted to endowment represents endowment funds held in a bank account as of the end of the year that had not yet been transferred to the investment account.

Total cash, as presented on the statement of cash flows, consists of the following:

Cash and cash equivalents	\$ 68,106
Cash restricted to endowment	<u>21,169</u>
Total cash and cash equivalents as reported on statement of cash flows	<u>\$ 89,275</u>

Concentrations of Credit Risk

Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash and cash equivalents and investments. The Society maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The Society's cash and cash equivalent accounts have been placed with a high credit quality financial institution. Interest and non-interest-bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash deposits exceeding federally insured limits are \$0 at December 31, 2019. The Society has not experienced, nor does it anticipate, any losses with respect to such accounts.

Accounts Receivable

Accounts receivable are stated at the amount the Society expects to collect from balances outstanding at year-end.

The Society has adopted the reserve method of recording bad debts. Under this method, an allowance for doubtful accounts is recorded as an estimate of the amount of uncollectible accounts. The allowance for doubtful accounts was \$0 for the year ended December 31, 2019.

Unconditional promises to give that are expected to be collected within one year are recorded at net realized value. Unconditional promises to give that are expected to be collect in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

Inventory

Inventory is stated at the lower of cost or market, determined by the first-in, first-out (FIFO) method. Inventory consists of items held for resale in the Society's museum store.

Note 2 continued on the next page.

Note 2 - Summary of Significant Accounting Policies (continued)

Property and Equipment, net

Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from five to thirty years. The Society's policy is to capitalize renewals and betterments acquired for greater than \$1,000 and expense normal repairs and maintenance as incurred. The Society's management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Investments

Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position, and changes in fair value are reported as investment return in the statement of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statement of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

The Society maintains a pooled investment account for all individual funds not requiring a separate account by a donor. Investment income and realized and unrealized gains and losses from securities in the pooled investment account are allocated to the individual endowments based on the relationship of the fair value interest of each individual endowment fund to the total fair value of the pooled investments.

Investments Held in Perpetual Trusts

Perpetual trusts are initially recorded as donor restricted contribution revenue, at fair value, based on the Society's interest in the fair value of the underlying trust assets at the time of the gift. Subsequent changes to the trusts' fair values are reported as change in value of beneficial interest in perpetual trusts with donor restrictions in the statement of activities. Income received from the trusts is reported as investment income with or without donor restrictions, depending on the existence or absence of donor-imposed restrictions.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. U.S. GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Society groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are:

Note 2 continued on the next page.

Note 2 - Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 Other observable inputs, either directory or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs that cannot be corroborated by observable market data.

Fair Value of Financial Instruments

The carrying amounts recorded in the statement of financial position for cash, accounts receivable, accounts payable and accrued expenses approximate their respective fair values.

Collections

Collection items consist of buildings, documents, artifacts, fine arts and crafts and photographs and are held for public exhibition, education, or research. Each item is cataloged, preserved, and cared for, and kept encumbered, and activities verifying their existence and assessing their condition are performed continuously. Collection items acquired either through purchase or donation are not capitalized. All purchases of collection items and repairs or improvements to collections are recorded as decreases in net assets without donor restrictions if purchased or repaired with assets without donor restrictions and as decreases in net assets with donor restrictions if purchased or repaired with donor restricted assets.

Contributions

Contributions received are recorded as net assets without donor restriction or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions, otherwise, the contributions are recorded as net assets without donor restrictions.

Note 2 continued on the next page.

Note 2 - Summary of Significant Accounting Policies (continued)

In-Kind Donations

Contributed services are recorded at their estimated fair value determined on the date of contribution and are reported as contributions in-kind and supporting services on the accompanying statement of activities and statement of functional expenses.

Several volunteers have made significant contributions of their time in furtherance of the Society's mission. These services were not reflected in the accompanying statement of activities because they do not meet the necessary criteria for recognition under U.S. GAAP.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and related expenses	Time and effort
Occupancy	Square footage
Professional fees	Time and effort
Supplies and materials	Time and effort
Depreciation	Square footage
Other	Time and effort

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets disclosures. Actual results could differ from those estimates.

Income Taxes

The Society is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Society has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Society has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Note 3 - Availability and Liquidity

The following represents the Society's financial assets at December 31, 2019:

	<u>2019</u>
Financial assets at year-end:	
Cash and cash equivalents	\$ 68,106
Cash restricted to endowments	21,169
Accounts receivable	10,124
Investments	<u>4,653,661</u>
Total financial assets	4,753,060
Less amounts not available to be used within one year:	
Net assts with donor restrictions	<u>4,558,681</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 194,379</u>

The Society's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments. The Society has a \$100,000 line of credit available to meet cash flow needs. The Society could also make a draw from its board designated endowment fund.

Note 4 - Property and Equipment

The Society's property and equipment at December 31, 2019 consisted of the following:

	<u>2019</u>
Building and improvements	\$ 3,076,773
Leasehold improvements	46,079
Land	30,000
Equipment	186,677
Website	<u>39,445</u>
Total property and equipment	3,378,974
Accumulated depreciation	<u>(687,792)</u>
Net property and equipment	<u>\$ 2,691,183</u>

Depreciation expense was \$106,633 for the year ended December 31, 2019.

Note 5 - Investments

Investments are stated at fair market value and consist of equity and debt securities. Cost, fair market value and net unrealized gains and losses are summarized as follows at December 31, 2019:

	2019	
	Cost	Fair Market Value
Cash and money market	\$ 129,003	\$ 129,003
Mutual funds	2,371,868	2,909,852
Equity securities:		
Healthcare industry	130,580	220,291
Information technology	104,588	301,991
Financial industry	116,323	206,425
Consumer staples	39,519	119,658
Consumer discretionary	79,199	163,303
Energy industry	15,188	32,757
Industrials	57,333	144,920
Telecommunication	126,188	165,663
Materials	12,960	42,115
Utilities	20,818	32,243
Publicly traded partnerships	30,859	35,440
Loan receivable	150,000	150,000
Total investments	<u>\$ 3,384,426</u>	<u>\$ 4,653,661</u>

As of December 31, 2019 all investments were considered Level 1 investments.

The composition of investment return is as follows at December 31, 2019:

	2019
Interest and dividends	\$ 112,290
Net realized gains	62,837
Net unrealized gains	621,716
Investment fees	<u>(26,676)</u>
Total investment return	770,167
Investment return designated for current operations	<u>(170,000)</u>
Investment return less amounts designated for current operations	<u>\$ 600,167</u>

Note 6 - Beneficial Interest Held in Perpetual Trust

The Society is the beneficial interest in “The Great Meeting House” trust which is managed by the Mellon Trust in Pittsburgh, Pennsylvania. The Society received \$20,000 during the year ended December 31, 2019 which can only be used for the care and maintenance of Friends Meeting House. The fair value of the trust at December 31, 2019 was \$302,696.

The Society is the beneficial interest in Joseph A. Blaine trust which is managed by U.S. Trust. The Society received \$3,449 from the trust during the year ended December 31, 2019 which can be used for collection purposes. The fair value of the trust at December 31, 2019 was \$329,185.

As of December 31, 2019 all investments held in perpetual trusts were considered Level 3 investments. The Level 3 valuation of the interest in perpetual trusts held by various financial institutions are determined using the investment statements provided by the trustees, which include market values for publicly traded investments. Due to the Society’s lack of control over the investing activities, the funds held by the financial institutions are considered to be valued using unobservable market inputs.

The table below provides a summary of changes in the fair value of the Level 3 financial assets measured on a recurring basis for the years ended December 31, 2019:

	<u>2019</u>
Balance, beginning of year	\$ 569,135
Change in value	86,194
Distributions	<u>(23,448)</u>
Balance, end of year	<u>\$ 631,881</u>

Note 7 - Collections

The Society’s collection items consist of books, manuscripts, museum exhibits and various historic properties that are held for public exhibition, education or research and are protected, kept unencumbered, cared for and preserved. The collection is used by researchers, historians and others who are interested in studying the history of Newport County and the nation. The Society employs staff to ensure that the collection is protected and preserved. The Society’s policy is that the proceeds from the sale of any deaccessioned collection items will be used to purchase additional collections or for the direct care of collections. The Society interprets direct care to include all actions that contribute to the preservation of collection items, individually or in the aggregate, and preserving their usefulness to scholars and the public. This includes all facets of collections management, conservation, salaries and professional development or training for collections staff.

Note 8 - Line of Credit

The Society has a \$100,000 line of credit, due on demand, with Bank Newport. At December 31, 2019 the Society had an outstanding balance of \$40,437. Interest expense totaled \$6,147 for the year ended December 31, 2019. The interest rate was 6.75% at December 31, 2019.

Note 9 - Loan Payable to Endowment

During the year ended December 31, 2019, the Society's board of directors approved the creation of a \$150,000 loan from its endowment funds. It is structured to serve as an acceptable investment of the endowment fund, and as such is included as an asset of the endowment. The term is for interest only for five years, ending January 1, 2024, at a rate of 5.5% per annum. Interest payments will be accrued or paid through reduction of the policy-stipulated monthly endowment draw. Principal of \$150,000 will be paid on or before January 1, 2024.

Note 10 - Net Assets

Net assets without donor restrictions were as follows for the year ended December 31, 2019:

	<u>2019</u>
Board designated endowment fund	\$ 1,012,791
Unrestricted	<u>2,347,600</u>
Total net assets without donor restrictions	<u>\$ 3,360,391</u>

Net assets with donor restrictions were as follows for the year ended December 31, 2019:

	<u>2019</u>
Specific purpose:	
Revolution House	\$ 11,125
Publication of Educational Book	61,570
Conservation and Programs	42,065
Restricted to temporary endowment	<u>472,476</u>
Total purpose restricted net assets	<u>\$ 587,236</u>

Net assets with permanent restrictions were as follows for the year ended December 31, 2019:

	<u>2019</u>
Terms of perpetual trust agreement:	
Mellon Trust	\$ 302,696
Blaine Trust	<u>329,185</u>
Total beneficial investments held in perpetual trusts	<u>\$ 631,881</u>

Investments in perpetuity which once appropriated, is expendable:

Any activities of the Society	\$ 2,503,484
Scholars program	<u>836,080</u>
Total investments in perpetuity	<u>\$ 3,339,564</u>
Total net assets with donor restrictions	<u>\$ 4,558,681</u>

Note 10 - Net Assets (continued)

Net assets released from net assets with donor restrictions are as follows for the year ended December 31, 2019:

	<u>2019</u>
Operating:	
Research librarian salary and benefits	\$ 18,000
Friends Meeting House	34,476
Publication of Educational Book	39,710
Visiting Scholars	40,000
Conservation and Programs	15,855
Temporary endowment	<u>92,845</u>
Total net assets released from restrictions – operating	<u>240,886</u>
Non-operating:	
Distributions from perpetual trusts	<u>23,448</u>
Total distributions from perpetual trusts – non-operating	<u>23,448</u>
Total net assets released from restrictions	<u>\$ 264,334</u>

Note 11 - Endowment

The Society's endowment consists of various funds established for various purposes. Its endowment includes both donor-restricted endowment funds designated by the board of trustees to function as endowments. As required by GAAP, 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 Society is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of trustees appropriates such amounts for expenditure. Some of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of trustees of the Society has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original amount contributed to the endowment fund unless the donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Society considers funds to be underwater if the fair value of the fund is less than the sum (a) the original value of initial and subsequent gift amounts donated to the fund gifts donated to the permanent endowment and (b) accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. The Society's spending and investment policies work together to achieve this objective.

Note 11 continued on the next page.

Note 11 - Endowment (continued)

Investment Return Objectives, Risk Parameters and Strategies: The assets of the endowment funds are to be invested with the same care, skill and diligence that a prudent person would exercise in investing institutional endowment funds. The primary objective is to achieve a reasonable total return on the assets, while limiting the risk exposure to ensure the preservation of capital. Endowment assets are invested in an asset mix, which consists of corporate stock, bonds, equity and bond mutual funds and cash. The Society will strive to preserve principal by prudently selecting quality instruments, by diversifying the portfolio across various sectors and by periodically reviewing the portfolio holdings, in consultation with the Society's investment manager, to reflect a prudent response to current market conditions.

Spending Policy: The Endowment Fund will be managed to mitigate the effects of short-term volatility in financial markets. Following are the annual spending goals: Annual draw from the endowment will be the lower of 5% of the three-year average of the Fund's market value. This limitation, however, shall not apply to any amounts established for unrestricted purposes as to the use of both principal and interest. It is the goal of the Society to grow or at least maintain the purchasing power of the fund, taking inflationary factors into account.

The composition of endowment net assets by net asset class for the year ended December 31, 2019 as follows:

	2019		
	With Donor Restrictions		
	Without Donor Restrictions	Donor Restricted Endowments	Total
Donor-restricted endowment funds	\$ -	\$ 3,812,039	\$ 3,812,039
Board designated endowment funds	1,012,791	-	1,012,791
Total	\$ 1,012,791	\$ 3,812,039	\$4,824,830

Endowment activities by net asset class for the year ended December 31, 2019 is as follows:

	2019		
	With Donor Restrictions		
	Without Donor Restrictions	Donor Restricted Endowments	Total
Endowment net assets, beginning of year	\$ 878,310	\$ 3,025,184	\$ 3,903,494
Contributions to endowment	-	150,000	150,000
Investment return:			
Investment income, net of fees	18,952	66,662	85,614
Net realized and unrealized gains (losses)	152,684	531,869	684,553
Appropriation of endowment funds for expenditure reclassification	(37,155)	(132,845)	(170,000)
Endowment net assets, end of year	-	171,169	171,169
Total	\$ 1,012,791	\$ 3,812,039	\$ 4,824,830

Note 11 continued on the next page.

Note 11 - Endowment (continued)

Reconciliation of endowment assets to total net assets at December 31, 2019 is as follows:

	2019			Total
	Without Donor Restrictions	With Donor Restrictions		
		Purpose & Time Restrictions	Donor Restricted Endowments	
Endowment assets and those functioning as endowment assets	\$ 1,012,791	\$ -	\$ 3,812,039	\$ 4,824,830
Beneficial interest in perpetual trust	-	-	631,881	631,881
Other net assets	2,347,600	114,761	-	2,462,361
Total net assets	\$ 3,360,391	\$ 114,761	\$ 4,443,920	\$ 7,919,072

Note 12 - Lease Agreements

The Society has an ongoing agreement with the City of Newport to lease their museum and store at 127 Thames Street (Brick Market) for \$1 a year. The Colony House has a multi-year renewing agreement with the State in return for 10% of any annual net profit.

Note 13 - Pension Plan

The Society entered into an agreement with TIAA and CREF which maintains a tax deferred annuity plan to permit the employees of the Society to elect individually to participate in the plan. The participants elect to allocate to the plan a specified amount which reduces their basis monthly salary. The Society does not contribute to the plan.

Note 14 - Subsequent Events

Subsequent to the end of the year, the COVID-19 outbreak in the United States has caused economic uncertainties which are likely to negatively impact net investment income. Other financial impact will likely occur; however, the related financial impact cannot be reasonably estimated at this time.

Subsequent events have been evaluated through September 13, 2021, which is the date the financial statements were available for issuance.