

The Barnes Foundation

Consolidated Financial Report
December 31, 2022

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Independent Auditor's Report

RSM US LLP

Board of Trustees
The Barnes Foundation

Opinion

We have audited the consolidated financial statements of The Barnes Foundation and CP 2023 (the Organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2021 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 15, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Blue Bell, Pennsylvania
June 15, 2023

The Barnes Foundation

**Consolidated Statements of Financial Position
December 31, 2022 and 2021**

	2022	2021
Assets		
Cash and cash equivalents	\$ 7,974,256	\$ 5,490,759
Accounts receivable	82,651	117,691
Contributions receivable (Note 4)	12,122,503	9,422,927
Accrued interest receivable	66,889	1,474
Inventory	1,431,446	1,166,424
Prepaid expenses	1,007,646	986,049
Investments (Note 5)	115,532,612	129,621,143
Property and equipment, net (Note 7)	95,307,819	94,048,157
Objects of art	5,775,387	5,775,387
Total assets	\$ 239,301,209	\$ 246,630,011
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 606,007	\$ 639,844
Accrued expenses	3,753,461	1,718,257
Deferred revenue	976,098	887,898
Loan payable (Note 18)	-	1,818,065
Total liabilities	5,335,566	5,064,064
Net assets:		
Without donor restrictions		
Undesignated	96,178,502	99,244,422
Designated by the Board for liquidity reserve (Note 15)	12,859,779	13,979,032
	109,038,281	113,223,454
With donor restrictions (Note 9)	124,927,362	128,342,493
Total net assets	233,965,643	241,565,947
Total liabilities and net assets	\$ 239,301,209	\$ 246,630,011

See notes to consolidated financial statements.

The Barnes Foundation

Consolidated Statements of Activities and Changes in Net Assets Year Ended December 31, 2022 (With Summarized Financial Information for the Year Ended December 31, 2021)

	2022			2021
	Without Donor Restriction	With Donor Restrictions	Total	Total
Revenues:				
Contributions of cash and other financial assets	\$ 6,314,009	\$ 26,593,251	\$ 32,907,260	\$ 21,438,799
Contributions of nonfinancial assets	2,647,398	-	2,647,398	950,696
Membership revenue	1,507,298	-	1,507,298	1,354,040
Admissions revenue	2,477,300	-	2,477,300	2,001,751
Retail sales	1,501,728	-	1,501,728	1,279,027
Event revenue	1,552,845	-	1,552,845	568,723
Education revenue	471,091	-	471,091	601,544
Licensing and merchandising revenue	21,718	-	21,718	12,215
Publications revenue	43,122	-	43,122	49,956
Miscellaneous earned revenue	1,498	-	1,498	37,467
Real Estate Income	-	-	-	2,753,288
Investment (loss) return, net of fees	(1,774,637)	(14,360,992)	(16,135,629)	15,535,204
Total revenues	14,763,370	12,232,259	26,995,629	46,582,710
Operating expenses:				
Salaries and benefits	14,709,229	-	14,709,229	12,409,908
In-kind advertising and other	2,647,397	-	2,647,397	950,696
Depreciation	5,320,757	-	5,320,757	5,220,235
Facility costs	2,408,330	-	2,408,330	2,172,618
Administrative expenses	2,473,065	-	2,473,065	1,961,296
Gift shop cost of goods sold	758,949	-	758,949	679,027
Professional and consulting fees	4,463,949	-	4,463,949	2,559,051
Other	1,814,257	-	1,814,257	1,022,036
Total operating expenses	34,595,933	-	34,595,933	26,974,867
Operating (deficit) income before net assets release	(19,832,563)	12,232,259	(7,600,304)	19,607,843
Net assets released from restrictions (Note 10)	15,647,390	(15,647,390)	-	-
Change in net assets	(4,185,173)	(3,415,131)	(7,600,304)	19,607,843
Net assets:				
Beginning	113,223,454	128,342,493	241,565,947	221,958,104
Ending	\$ 109,038,281	\$ 124,927,362	\$ 233,965,643	\$ 241,565,947

See notes to consolidated financial statements.

The Barnes Foundation

Consolidated Statements of Cash Flows Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (7,600,304)	\$ 19,607,843
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,320,757	5,220,235
Amortization	176,526	91,569
Loan forgiveness, Paycheck Protection Program	(1,818,065)	-
Net unrealized loss (gain) on investments	20,201,861	(7,469,349)
Gain on sale of investments	(1,300,180)	(4,984,766)
Gain on sale of land	-	(2,756,352)
Change in discount on contributions receivable	914,068	610,143
Contributions restricted to endowment	(9,000,000)	(7,520,460)
(Increase) decrease in assets:		
Accounts receivable	35,040	(108,043)
Contributions receivable	(1,468,296)	526,824
Accrued interest receivable	(65,415)	(1,167)
Inventory	(441,548)	(367,962)
Prepaid expenses	(21,597)	(165,977)
Increase (decrease) in liabilities:		
Accounts payable	(33,838)	514,720
Accrued expenses	(885,110)	220,617
Deferred revenue	88,200	92,040
Net cash provided by operating activities	4,102,099	3,509,915
Cash flows from investing activities:		
Proceeds from sale of investments	27,341,445	29,943,503
Purchases of investments	(32,154,595)	(33,432,211)
Proceeds from sale of land	-	2,763,652
Purchase of property and equipment	(3,660,104)	(2,699,134)
Net cash used in investing activities	(8,473,254)	(3,424,190)
Cash flows from financing activities:		
Proceeds from Paycheck Protection Program loan	-	1,818,065
Collection of contributions restricted to endowment	6,854,652	2,339,834
Net cash provided by financing activities	6,854,652	4,157,899
Net increase in cash and cash equivalents	2,483,497	4,243,624
Cash and cash equivalents:		
Beginning	5,490,759	1,247,135
Ending	\$ 7,974,256	\$ 5,490,759
Supplemental disclosures of cash flow information:		
Property and equipment in accrued expenses	\$ 2,920,314	\$ 861,047
Lease liabilities incurred for right of use assets	\$ 51,221	\$ -

See notes to consolidated financial statements.

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: The Barnes Foundation (the Foundation) was chartered by the Commonwealth of Pennsylvania in 1922, as a privately endowed, nonprofit educational institution, for the purpose of conducting classes in art appreciation and horticulture. The Foundation facilities include a gallery located in Philadelphia, Pennsylvania and an arboretum located in Merion, Pennsylvania, which are open to the public at designated times, along with a country estate located in Chester Springs, Pennsylvania, that is not generally open to the public. In 2017, the Foundation entered into an Educational Collaboration and Lease Agreement with St. Joseph University (SJU). Under the agreement, SJU is permitted to utilize the Merion facilities for its educational program and conducts the horticulture program.

In August 2020, CP 2023 was formed, a supporting organization of the Foundation established to create an environment for installations and presentations to focus on the art of Alexander Calder. This venue is being specifically designed to house a rotating selection of Calder artworks in cooperation with the Calder Foundation (CALDER). CP 2023 and its Board will provide strategic direction, guide the building and planning process for the facility, secure a lease for the land which the building will occupy, obtain funding for the building project, raise an endowment to support its operations and support the raising of additional operating resources. In July 2021, the Foundation entered into a collaboration and service agreement with CP 2023 and CALDER to provide administration and operational support for CP2023 and the planned venue. CP 2023, its Board and related committees will continue to oversee the project until its completion, expected to occur in 2024. The facility will then operate as part of the operations of the Foundation.

Principles of consolidation: The consolidated financial statements include the accounts of the Foundation and CP 2023 (collectively, the Organization). All significant intercompany balances have been eliminated in consolidation.

A summary of the Organization's significant accounting policies is as follows:

Cash and cash equivalents: The Organization considers all short-term securities purchased with a maturity of three months or less to be cash equivalents.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured and stated at fair value (as more fully described in Note 5). Interest and dividend income is recognized when earned. Any unrealized or realized gains or losses are reported in the consolidated statement of activities and changes in net assets as a change in net assets without donor restrictions, unless explicit donor intent or law restricts their use, in which case unrealized gains or losses are reported in the consolidated statement of activities and changes in net assets as a change in net assets with donor restrictions.

The fair value of each investment is determined at the consolidated statements of financial position date in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures. Accordingly, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. Fair value measurements are separately disclosed by level within the fair value hierarchy.

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following is a description of the valuation methodologies used for instruments measured at fair value. These valuation methodologies were applied to all of the Foundation's financial assets and liabilities that are carried at fair value as of December 31, 2022 and 2021.

The fair value of securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers (Level 1). When listed prices or quotes are not available, fair value is based upon quoted market prices for similar or identical assets or other observable inputs (Level 2) or significant management judgment or estimation based upon unobservable inputs due to limited or no market activity of the instrument (Level 3).

The Foundation measures its private investments using net asset value (NAV) per share (or its equivalent), provided by the investment managers, as a practical expedient for fair value. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

Contributions receivable: Contributions receivable, which represent unconditional promises to give, are recognized as revenue in the period received and as assets, decreases of liabilities or expenses, depending on the form of the benefits received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected over periods in excess of one year are recorded at fair value, which is measured as present value of the estimated cash flows beyond one year, using current market rates appropriate for the expected term of the promise to give.

Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recorded when the conditions on which they depend are substantially met.

Inventory: Gallery shop inventory consists of purchased items and is stated at the lower of cost (determined by the first-in, first-out method) or net realizable value.

Property and equipment and depreciation: Property and equipment are stated at cost. The cost of property and equipment is depreciated over the estimated useful lives of the related assets on a straight-line basis ranging from three to 30 years.

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Objects of art: The Foundation owns a collection of paintings, sculptures, antiques and other objects of art. The Foundation has capitalized collection items purchased directly by the Foundation at cost, and those contributed other than by its Founder at the fair market value on the date of the gift. Substantially all of the collection objects were donated to the Foundation by its Founder and are recorded at a \$1 nominal value, in accordance with a resolution of the Board of Trustees at the time of the gift. The Foundation has determined that it is not practical to establish a fair value of the Founder's original contribution as of the date of the gift because records relating to the fair value at the date of the contribution are unreliable or do not exist.

Deferred revenue: Deferred revenue consists of amounts received where recognition of those amounts as revenue is conditioned upon the Foundation performing services in future periods. On December 31, 2022, deferred revenue was \$976,098. Of this amount, \$832,548 related to membership revenue, which will be recognized as the Foundation fulfills its obligation to provide benefits to members over their membership period, and \$143,550 represents amounts paid in advance for admissions tickets, classes and events. On December 31, 2021, deferred revenue was \$887,898. Of this amount, \$797,672 related to membership revenue, which will be recognized as the Foundation fulfills its obligation to provide benefits to members over their membership period, and \$90,226 represents amounts paid in advance for admissions tickets, classes and events.

Sources of revenue: The Foundation derives its significant revenue from the following principal sources:

Contributions: Contributions, without purpose or time restrictions, are reported as revenue without donor restrictions and are recognized as revenue in the period received. Contributions with donor-imposed restrictions that limit the use of the asset, are reported as revenue with donor restrictions and are released to net assets without donor restrictions when an expense is incurred that satisfies the donor restrictions.

Contributions include federal government grants, which are conditioned upon the incurrence of allowable qualifying expenses. Amounts received from government grants are recognized as contributions with donor restrictions and subsequently released from restrictions, as qualifying expenditures are spent.

Membership revenue: The Foundation sells non-refundable museum memberships allowing members to utilize certain benefits during a 12-month period. A portion of the membership cost represents an exchange transaction based on benefits provided to the member and a portion represents a contribution to the Foundation, determined as the excess of the membership cost over the estimated value of the members' benefits. The revenue related to the contribution is recognized in the period received and is reported as contributions. The portion of the membership revenue related to membership benefits is recognized ratably over the annual membership period. The terms, benefits and prices of each membership level are outlined on the Foundation's website and related materials and are established based on stand-alone selling prices. The Foundation determines the value of the members' benefits based on the fair value of the benefits provided in combination with historical data indicating member utilization of the benefits.

Contributions of nonfinancial assets: The Foundation recognizes donated advertising utilized based on current rates for similar services provided by the donor.

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Admissions revenue: The performance obligation related to admissions revenues is to provide customer access to the Foundation's collection and/or public program on a specific date. Admissions prices are based on published rates and tickets are non-refundable. The Foundation adjusts the liability related to tickets purchased in advance at the end of the year. Revenue from admissions is recognized as of the date of visitation.

Retail sales: The performance obligation related to retail sales is to provide customers with merchandise that they select while visiting the on-site operation or via the Foundation's website. The transaction price is the stated retail price unless the customer is a museum member or staff member and a discount is provided. Most sales occur on-site and the sales revenue is recognized at the point in time that the sale occurs.

Event revenue and commissions: The performance obligation related to event revenue is to provide space to customers who host events for invited guests. The rental fees are based on fair market values. In most cases, payment is received in advance of the event and is recognized as deferred revenue. Event revenue is recognized when the event occurs. Commissions from the Foundation's food service provider based on food and beverage purchases related to events are generally received after the event occurs.

Commission revenue is recognized in the period earned. Commissions from the Foundation's food service provider based on food and beverage purchases resulting from the operation of the on-site outlets are recognized in the period earned. Payment for commissions is received monthly after the sale to the customer.

Net assets: The Organization classifies net assets into two categories: with donor restrictions and without donor restrictions. All contributions are considered to be without donor restrictions, unless specifically restricted by the donor. Assets with donor restrictions are contributions with donor-imposed time or purpose restrictions.

Income taxes: The Organization is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Foundation did not pay any unrelated business income taxes in 2022 or in 2021.

Management has evaluated the Organization's tax positions and concluded that the Organization had taken no material uncertain tax positions that require adjustment to the consolidated financial statements. Consequently, no accrual for interest and penalties was deemed necessary for the years ended December 31, 2022 or 2021. The Organization files income tax returns in the United States federal jurisdiction. Generally, the Organization is no longer subject to income tax examinations by the United States federal, state or local tax authorities for years before 2019.

Functional expense allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the schedule of functional allocation of expenses in Note 13. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Leases: The Foundation measured the right-of-use (ROU) asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022. The Foundation made an accounting policy election available under ASC 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of lease (or January 1, 2022, for existing leases upon the adoption of ASC 842). To determine the present value of lease payments, the Foundation made an accounting policy election available to nonpublic companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the commencement date (or remaining term for leases existing upon the adoption of ASC 842).

Recent accounting pronouncements—adopted: Effective January 1, 2022, the Foundation adopted FASB ASC 842, Leases. The Foundation determines if an arrangement contains a lease at inception based on whether the Foundation has the right to control the asset during the contract period and other facts and circumstances. The Foundation elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification. The adoption of FASB ASC 842 resulted in the recognition of right-of-use assets, of approximately \$52,000. The adoption of FASB ASC 842 did not have a material impact on the Foundation's consolidated results of change in net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance sheet net assets.

On January 1, 2022, the Foundation also adopted Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-For Profit Entities for Contributed Nonfinancial Assets*, which improves financial reporting by providing new presentation and disclosure requirement for contributions of nonfinancial assets. The adoption of this standard had no material impact on the financial statements.

Prior year summarized comparative information: The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the audited financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Subsequent events: The Organization has evaluated events occurring after December 31, 2022 through June 15, 2023, the date of issuance of these consolidated financial statements, and concluded no events or transactions that require recognition or disclosure in the consolidated financial statements.

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Notes to Consolidated Financial Statements

Note 2. CP 2023 Activity

CP 2023 was formed in 2020 to raise funds and support the construction of a new facility to showcase art by Alexander Calder. Supporters of the project have pledged approximately \$72.0 million to cover the cost of the construction of the facility and create an endowment. Of this amount, approximately \$12.2 million was collected through December 31, 2022. The balance of pledges are contingent on the occurrence of events in the future and have not been reflected in these consolidated financial statements.

The following is a summary of CP 2023 activity which is included in the consolidated financial statements for the year ended December 31, 2022 and 2021:

	2022	2021
Statement of financial position:		
Cash and cash equivalents	\$ 6,125,182	\$ 1,233,814
Property and equipment	7,236,354	2,461,892
Total assets	<u>\$ 13,361,536</u>	<u>\$ 3,695,706</u>
Accrued expenses	\$ 2,920,313	\$ 861,047
Net assets with donor restrictions	10,441,223	2,834,659
Total liabilities and net assets	<u>\$ 13,361,536</u>	<u>\$ 3,695,706</u>

	2022		2021
	Without Donor Restrictions	With Donor Restrictions	Summarized Total
Statement of activities:			
Revenue:			
Contributions with donor restrictions	\$ -	\$ 7,934,000	\$ 2,929,092
Investment returns	-	7,498	-
Total revenue	-	7,941,498	2,929,092
Expenses:			
Facility cost	36,938	-	-
Administrative	13,826	-	94,433
Professional and consulting fees	89,721	-	-
Other	194,449	-	-
Total expenses	334,934	-	94,433
Operating (deficit) income before net asset release	(334,934)	7,941,498	2,834,659
Net assets released from restriction	334,934	(334,934)	-
Change in net assets	-	7,606,564	2,834,659
Net assets:			
Beginning	-	2,834,659	-
Ending	<u>\$ -</u>	<u>\$ 10,441,223</u>	<u>\$ 2,834,659</u>

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 3. Credit and Financial Risk

The Organization has deposits with major financial institutions which exceed Federal Depository Insurance Corporation (FDIC) limits. The Organization believes it limits any significant credit risk on cash and cash equivalents by placing its deposits with high credit quality financial institutions.

The Foundation's contributions receivable are unsecured. The Foundation periodically reminds donors of their commitments.

The Foundation's investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Note 4. Contributions Receivable

Contributions receivable consist of the following:

	2022	2021
Second Century Campaign	\$ 9,861,175	\$ 8,653,603
Other	2,261,328	769,324
	<u>\$ 12,122,503</u>	<u>\$ 9,422,927</u>

The Foundation has initiated a capital campaign to raise endowment and multi-year project support for initiatives which support the key priorities of its strategic plan. Launched in conjunction with the Foundation's 100th anniversary, the Second Century Campaign has a stated goal of \$100.0 million.

The Foundation recorded contributions receivable for funding from various sources that are due to be received as follows:

	2022	2021
Due within:		
Less than one year	\$ 3,486,117	\$ 2,167,798
One to five years	3,765,000	3,330,023
More than five years	7,335,348	5,475,000
Gross unconditional contributions receivable	14,586,465	10,972,821
Less unamortized discount	2,463,962	1,549,894
	<u>\$ 12,122,503</u>	<u>\$ 9,422,927</u>

The discount to net present value represents a discount for funding to be received in future years. This discount rate was approximately 4% at December 31, 2022 and 2021. All contributions receivable at December 31, 2022, are considered collectible.

At December 31, 2022, five donors accounted for 61% of gross contributions receivable. At December 31, 2021, five donors accounted for 71% of gross contributions receivable.

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Notes to Consolidated Financial Statements

Note 4. Contributions Receivable (Continued)

During the year ended December 31, 2022, The Foundation met the conditions under the Employee Retention Credit (ERC), which included satisfying the eligibility requirements of ERC and the incurrence of allowable qualifying expenses. During the year ended December 31, 2022, the Foundation recognized a receivable and corresponding contribution revenue of approximately \$1.4 million for amounts owed to the Foundation under the ERC.

Note 5. Investments

Investments, at fair value, consist of the following:

	2022	2021
U.S. equity mutual funds and exchange traded funds (ETF's)	\$ 35,255,755	\$ 47,367,492
International equity mutual funds and ETF's	24,722,959	28,710,820
Fixed income mutual funds	24,455,924	24,979,612
U.S. equity securities	4,322,444	5,829,370
Money market funds	4,568,198	3,951,968
Private investments	17,490,276	15,346,857
Real estate investment trusts	1,340,874	-
Commodity mutual funds	3,376,166	3,434,999
U.S. government and agency notes and bonds	16	25
	<u>\$ 115,532,612</u>	<u>\$ 129,621,143</u>

Note 6. Fair Value of Financial Instruments

Fair value on a recurring basis: The tables below present the balance of assets measured at fair value on a recurring basis as of December 31, 2022 and 2021:

	Assets Measured at Fair Value	Fair Value Measurements at December 31, 2022 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
U.S. equity mutual funds and ETF's	\$ 35,255,755	\$ 35,255,755	\$ -	\$ -
International equity mutual funds and ETF's	24,722,959	24,722,959	-	-
Fixed income mutual funds	24,455,924	-	24,455,924	-
U.S. equity securities	4,322,444	4,322,444	-	-
Money market funds	4,568,198	4,568,198	-	-
Real estate investment trusts	1,340,874	-	1,340,874	-
Commodity mutual funds	3,376,166	3,376,166	-	-
U.S. government and agency notes and bonds	16	16	-	-
	<u>98,042,336</u>	<u>\$ 72,245,538</u>	<u>\$ 25,796,798</u>	<u>\$ -</u>
Private investments valued at NAV (a)	17,490,276			
	<u>\$ 115,532,612</u>			

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 6. Fair Value of Financial Instruments (Continued)

	Assets Measured at Fair Value	Fair Value Measurements at December 31, 2021 Using		
		Quoted Prices in	Significant Other	Significant Other
		Active Markets for	Observable	Unobservable
		Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Assets:				
U.S. equity mutual funds and ETFs	\$ 47,367,492	\$ 47,367,492	\$ -	\$ -
International mutual funds and ETFs	28,710,820	28,710,820	-	-
Fixed income mutual funds	24,979,612	-	24,979,612	-
Money market funds	3,951,968	3,951,968	-	-
U.S. equity securities	5,829,370	5,829,370	-	-
Commodity mutual funds	3,434,999	3,434,999	-	-
U.S. government and agency notes and bonds	25	25	-	-
	114,274,286	\$ 89,294,674	\$ 24,979,612	\$ -
Private investments valued at NAV (a)	15,346,857			
	<u>\$ 129,621,143</u>			

(a) In accordance with ASU 2015-07, Subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the above fair value hierarchy table. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

Private investments include limited partnership investment funds, which invest in private equity, credit, real estate and infrastructure. Private investments have various redemption frequencies defined in the respective offering memorandum. At December 31, 2022, the Foundation had approximately \$46.8 million in unfunded commitments for private investments.

At December 31, 2022 and 2021, the Foundation did not have any financial instruments that are recorded at fair value on a non-recurring basis. In addition, there was no change in valuation techniques used to measure fair value of the assets.

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 7. Property and Equipment

Property and equipment consist of the following:

	2022	2021
Merion and Chester Springs:		
Land	\$ 155,589	\$ 155,589
Buildings and improvements	14,297,340	14,182,554
Equipment	25,625	25,625
Construction in progress	-	114,564
	<u>14,478,554</u>	<u>14,478,332</u>
Less accumulated depreciation	<u>12,578,457</u>	<u>12,155,011</u>
	<u>1,900,097</u>	<u>2,323,321</u>
Philadelphia:		
Buildings and improvements	127,610,906	127,420,816
Furniture and fixtures	2,863,399	2,778,380
Equipment	2,030,778	1,713,258
Technology equipment/software	1,955,915	1,426,471
Construction in progress	758,312	121,274
	<u>135,219,310</u>	<u>133,460,199</u>
Less accumulated depreciation	<u>49,047,942</u>	<u>44,197,255</u>
	<u>86,171,368</u>	<u>89,262,944</u>
CP 2023		
Construction in progress	7,236,354	2,461,892
	<u>\$ 95,307,819</u>	<u>\$ 94,048,157</u>

Note 8. Line of Credit

The Foundation has an available line of credit with a bank in the amount of \$2.0 million dated as of July 29, 2021, which renews annually and now expires July 31, 2023. If used, the borrowings under the line bear interest at a rate of SOFR plus 1.75%. The line is collateralized by an account at the same bank which holds an amount equivalent to the value of the line, representing a portion of the Foundation's board designated endowment. The Foundation had no borrowings under the line of credit during the year 2022 and no amounts outstanding on the line as of December 31, 2022, and through the date of these consolidated financial statements.

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following:

	2022	2021
Net assets held in perpetuity:		
General operating/other purposes	\$ 49,634,368	\$ 57,020,163
Scholarly activities	43,160,770	43,265,962
Education	12,893,313	14,773,002
Underwater endowments	(140,442)	-
	<u>105,548,009</u>	<u>115,059,127</u>
Subject to expenditure for specified purpose:		
Capital renovations	3,308,329	5,966,828
General operating/other purposes	2,145,679	1,884,152
Scholarly activities	2,469,381	1,972,527
Education	1,014,742	625,200
CP 2023	10,441,222	2,834,659
Total net assets with donor restrictions	<u>\$ 124,927,362</u>	<u>\$ 128,342,493</u>

Scholarly activities of the Foundation include the curatorial, conservation, archives, registration, publication and special exhibition functions.

Note 10. Net Assets Released From Restrictions

Net assets were released from restrictions by satisfying purpose restrictions during the years ended December 31, 2022 and 2021, as follows:

	2022	2021
Capital renovations	\$ 1,770,302	\$ 1,018,503
General operating/other purposes	7,302,087	5,224,944
Scholarly activities	4,850,965	3,826,458
Education	1,389,102	1,090,710
CP 2023	334,934	94,433
	<u>\$ 15,647,390</u>	<u>\$ 11,255,048</u>

Scholarly activities of the Foundation include the curatorial, conservation, archives, registration, publication and special exhibition functions.

Note 11. Leases

The Foundation has leases for office equipment. The Foundation has a ROU asset of approximately \$41,000, which is included in property and equipment at December 31, 2022. The related ROU lease liability of approximately \$43,000, which is included in accrued expenses at December 31, 2022, and has future minimum payments through 2026.

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 11. Leases (Continued)

On January 8, 2008, the Foundation executed a Ground Sublease with The Philadelphia Authority for Industrial Development (PAID) for a parcel of land located on the Benjamin Franklin Parkway in Philadelphia. The land, which is owned by the City of Philadelphia, was leased to PAID under a Master Lease on the same date. The lease is a 99-year lease, commencing with the completion of certain conditions. The Foundation paid a base rent of \$10 for the term of the lease and was obligated under the lease to pay certain additional costs. The initial term of the lease commenced in October 2008, when the City had vacated the premises.

Note 12. Pension Plans

The Foundation has a 403(b) Elective Deferral Plan (the Plan) where eligible employees may elect to contribute up to the annual Internal Revenue Service contribution limits. The Foundation will match 50% of amounts deferred by employees, up to 3% of the employee's base salary. The Foundation contributed \$281,896 in 2022 and \$233,306 in 2021 to the Plan.

Note 13. Functional Allocation of Expenses

The Foundation classifies its operations into three categories: Collections Care, which includes curatorial activities and special exhibitions, publications, archives and special collections, conservation of the collections and visual resources operations for its art program; Visitation, which includes public operations, retail operations and event operations and support; and Education, which includes programming for adult learners and school-age visitors, for its art programs.

The following chart sets forth the Foundation's expenses classified by function. Certain expenses are attributable to more than one program or support function. General insurance and information technology are allocated based on employee headcount. Audio visual expenses and marketing costs are allocated based on the level of support expended for various programming. The following expense categories are allocated based on the percentage of operating hours that are dedicated to that function or program activity: security, operations and depreciation expense. The cost of the Foundation's fine arts insurance coverage is allocated directly to Collections Care.

	2022							
	Program Activities				Supporting Activities			Total Expenses
	Collection Care	Visitation	Education	Programs Subtotal	Management and General	Fundraising	Supporting Subtotal	
Salaries and benefits	\$ 2,181,766	\$ 5,351,258	\$ 1,891,593	\$ 9,424,617	\$ 3,046,796	\$ 2,237,817	\$ 5,284,613	\$ 14,709,230
Professional services	2,384,265	454,372	119,552	2,958,189	1,100,338	405,422	1,505,760	4,463,949
Advertising	-	517,105	109,921	627,026	194,449	4,000	198,449	825,475
Facility expenses	1,234,061	738,298	317,248	2,289,607	116,261	2,462	118,723	2,408,330
Information technology	60,794	204,068	71,623	336,485	48,436	49,927	98,363	434,848
Insurance	360,920	146,148	40,560	547,628	34,246	32,662	66,908	614,536
Gift shop expenses	-	758,949	-	758,949	-	-	-	758,949
Travel and office expenses	191,638	112,060	30,116	333,814	182,397	287,969	470,366	804,180
Miscellaneous	338,307	169,453	115,761	623,521	43,430	610,081	653,511	1,277,032
Bank fees	454	201,301	25,335	227,090	26,318	77,841	104,159	331,249
Depreciation	2,648,142	1,643,674	821,837	5,113,653	204,547	2,557	207,104	5,320,757
Other/In-kind contributions	30,000	2,586,137	6,261	2,622,398	-	25,000	25,000	2,647,398
	<u>\$ 9,430,347</u>	<u>\$ 12,882,823</u>	<u>\$ 3,549,807</u>	<u>\$ 25,862,977</u>	<u>\$ 4,997,218</u>	<u>\$ 3,735,738</u>	<u>\$ 8,732,956</u>	<u>\$ 34,595,933</u>

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 13. Functional Allocation of Expenses (Continued)

	2021							
	Program Activities				Supporting Activities			
	Collection Care	Visitation	Education	Programs Subtotal	Management and General	Fundraising	Supporting Subtotal	Total Expenses
Salaries and benefits	\$ 1,953,792	\$ 4,297,678	\$ 1,411,145	\$ 7,662,615	\$ 2,500,503	\$ 2,246,790	\$ 4,747,293	\$ 12,409,908
Professional services	1,108,899	281,613	56,635	1,447,147	768,537	343,367	1,111,904	2,559,051
Advertising	-	393,083	83,960	477,043	-	1,000	1,000	478,043
Facility expenses	1,125,101	678,655	292,083	2,095,839	75,077	1,702	76,779	2,172,618
Information technology	59,927	227,022	55,901	342,850	48,023	54,748	102,771	445,621
Insurance	269,056	153,749	35,276	458,081	29,507	37,162	66,669	524,750
Gift shop expenses	-	679,027	-	679,027	-	-	-	679,027
Travel and office expenses	56,264	35,904	7,616	99,784	79,857	175,954	255,811	355,595
Miscellaneous	209,313	100,900	125,011	435,224	147,316	322,440	469,756	904,980
Bank fees	457	153,611	30,616	184,684	17,376	72,283	89,659	274,343
Depreciation	2,598,113	1,612,622	806,311	5,017,046	200,681	2,508	203,189	5,220,235
Other/in-kind contributions	1,200	920,633	28,863	950,696	-	-	-	950,696
	<u>\$ 7,382,122</u>	<u>\$ 9,534,497</u>	<u>\$ 2,933,417</u>	<u>\$ 19,850,036</u>	<u>\$ 3,866,877</u>	<u>\$ 3,257,954</u>	<u>\$ 7,124,831</u>	<u>\$ 26,974,867</u>

Note 14. Liquidity and Availability of Financial Assets

The Foundation's working capital and cash flows have seasonal variations during the year attributable to a concentration of contributions received near the end of the fiscal year. To manage liquidity, the Foundation utilizes its annual endowment draw to provide for its cash needs, which may vary from month to month based on cash requirements. Approximately 15% of the Foundation's endowment portfolio is not convertible to cash within the next 12 months.

As of December 31, 2022 and 2021, the following financial assets are available to meet annual operating needs of the following fiscal year:

	2022	2021
Financial assets at December 31:		
Cash and cash equivalents	\$ 7,974,256	\$ 5,490,759
Accounts and contributions receivable, net	12,205,154	9,540,618
Accrued interest receivable	66,889	1,474
Investments	115,532,612	129,621,143
Total financial assets	<u>135,778,911</u>	<u>144,653,994</u>

Less amounts not available for general expenditures within one year:

Pledges receivable greater than one year, net	8,636,386	7,255,129
Investments—not convertible to cash in the next 12 months	17,490,276	15,446,857
Cash encumbered by donor restrictions	6,125,182	1,233,814
Contributions receivable subject to donor restrictions	1,940,023	2,090,000
Investments subject to donor restrictions	78,183,154	94,526,254
Total financial assets unavailable within one year	<u>112,375,021</u>	<u>120,552,054</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 23,403,890</u>	<u>\$ 24,101,940</u>

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 14. Liquidity and Availability of Financial Assets (Continued)

To manage unanticipated liquidity needs, the Foundation has a committed line of credit in the amount of \$2.0 million, as described in Note 8. Additionally, the Foundation has board designated net assets without donor restrictions of approximately \$12.9 million and \$14.0 million as of December 31, 2022 and 2021, respectively, subject to its annual spending policy as described in Note 16. Although the Foundation does not intend to spend from its board designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and draw election), these amounts could be made available if necessary.

Note 15. Board Designated Endowment

The Board of Trustees of the Barnes Foundation has a standing policy that bequests without donor restrictions are designated for long-term investment (Board Designated Endowment). In addition, the Board may from time to time designate funds to establish an operating reserve with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need.

The value of Board Designated Endowment funds was \$12,859,779 and \$13,979,032 at December 31, 2022 and 2021, respectively.

Note 16. Endowments

The Foundation follows the standard which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also require disclosures about endowment funds, both donor-restricted endowment funds and Board Designated Endowment funds.

The Foundation's endowment consists of four donor-restricted funds (Scholarly Activity Endowment, Education Endowment, Capital Renovation Endowment and General Support Endowment) that were established for activities related to the care of and research about the collection, support of the Foundation's education programs and general support of the Foundation's operations and physical plant. Endowment assets include a managed pool of investments. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported as assets with donor restrictions.

Interpretation of relevant law: The Commonwealth of Pennsylvania has not adopted UPMIFA. State law allows non-profit organizations to make an election to adopt a total return investment policy as provided by Act 141 (1988) of Pennsylvania legislature, 15 Pa.C.S.A Section (total return election). In 2010, the Foundation made a total return election. The Foundation is free to adopt any prudent investment policy and make withdrawals consistent with its goals of preserving the endowment funds, while making funds available for continued operations. The Foundation has reviewed its donor agreements and has determined that none of the agreements contain any explicit limitations on withdrawals.

Spending policy, return objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the program supported by its endowment, while seeking to maintain the purchasing power of the endowment assets.

The corpus of the endowment assets are held in perpetuity for Scholarly Activities, Education Program Support, and General Operating Support based on donor restrictions. At December 31, 2022 and 2021, endowment assets are invested primarily in a diversified portfolio of marketable securities. Funds awaiting investment are held in a savings account at an FDIC-insured financial institution.

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 16. Endowments (Continued)

The Foundation used a 5% spending rate in 2022 and 2021 to determine the amount of endowment earnings to be allocated to operations. The spending rate is subject to review annually by the Foundation's Board of Trustees. In 2022 and 2021, the Board of Trustees elected to apply the spending rate to the average quarterly endowment balances in the prior three years, after deducting the value of any new funds collected in respect of the Second Century Campaign. The Board further authorized a draw of 5% on the principal value of new funds received during the prior first three years, based on the original contributed value of such funds. In addition, distributions from outside trusts are available to be credited to operations.

The value of endowment earnings credited to operations was \$6,779,000 in 2022 and \$5,171,724 in 2021. Dividends, interest and changes in investment value on donor restricted net assets are recorded as increases or decreases in net assets with donor restrictions.

Funds with deficiencies: From time to time, the fair value of assets associated with donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration.

In 2022, deficiencies of this nature existed in endowment funds restricted for education. These funds had an original value of \$12.56 million, a current fair value of \$12.42 million, and a deficiency of \$140,442 as of December 31, 2022.

These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds. Continued appropriation for these programs was deemed to be prudent by the Foundation's Board of Trustees.

Changes in endowment funds for the year ended December 31, 2022, were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowments net assets, beginning of the year	\$ 13,979,032	\$ 115,348,713	\$ 129,327,745
Contributions	1,255,995	7,759,652	9,015,647
Net investment loss	(1,769,840)	(14,408,164)	(16,178,004)
Appropriation of endowment assets for expenditure	(605,408)	(6,173,592)	(6,779,000)
Endowment net assets, end of year	\$ 12,859,779	\$ 102,526,609	\$ 115,386,388

Changes in endowment funds for the year ended December 31, 2021, were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowments net assets, beginning of the year	\$ 6,458,829	\$ 101,746,066	\$ 108,204,895
Contributions	6,429,590	4,333,884	10,763,474
Net Investment return	1,371,624	14,159,476	15,531,100
Appropriation of endowment assets for expenditure	(281,011)	(4,890,713)	(5,171,724)
Endowment net assets, end of year	\$ 13,979,032	\$ 115,348,713	\$ 129,327,745

The Barnes Foundation

Notes to Consolidated Financial Statements

Note 17. Real Estate Income

The Foundation owned approximately 137 acres of property in Chester County, Pennsylvania, which was the site of its Founder's summer home. This property was not actively used in connection with the Foundation's operations. In 2021, the Foundation sold 100.5 acres for approximately \$2.8 million. The Board of Trustees determined that the net proceeds were to be placed into the Foundation's endowment as a Board Designated endowment. The Foundation currently expects to retain the remaining 36.5 acres, which includes a house and some other buildings.

Note 18. Impact of COVID-19 on Operations

In April 2021, the Foundation received the proceeds of a second Payroll Protection Program (PPP) Loan in the amount of \$1,818,065. This loan was made to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The Foundation accounted for the second PPP loan under ASC 470, Debt. The Foundation was advised on August 16, 2022, by the Small Business Association (SBA) that its application for forgiveness was approved and recorded contribution revenue of \$1,818,065 on the consolidated statement of activities for the year ended December 31, 2022. The SBA reserves the right to audit the PPP Loan for up to six years following loan forgiveness.

In July 2021, the Foundation received a Supplemental Phase Shuttered Venue Operators Grant (SVOG) in the amount of \$1,821,002, which is included in contributions with donor restrictions.

Note 19. Subsequent Event

Subsequent to December 31, 2022, the Board of Trustees approved changing the Foundation's year end to June 30.

Effective May 31, 2023, a Ground Sublease between the City of Philadelphia and CP 2023 was approved. This site will be the location of the new Calder venue described in Note 1. The lease has a 99-year term at a nominal rate.