

Farnsworth Art Museum

Consolidated Financial Statements and Supplementary Information

September 30, 2022 and 2021



WIPFLI

Independent Auditor's Report

Board of Trustees
The William A. Farnsworth Library and Art Museum, Inc.
Rockland, Maine

Opinion

We have audited the accompanying consolidated financial statements (the "financial statements") of The William A. Farnsworth Library and Art Museum, Inc. (the "Museum"), a nonprofit organization, which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of The William A. Farnsworth Library and Art Museum, Inc. as of September 30, 2022 and 2021, and the changes in its net assets for the years then ended in accordance with GAAP ("GAAP").

Basis for Opinion

We conducted our audits 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 William A. Farnsworth Library and Art Museum, Inc. 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 GAAP, 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 William A. Farnsworth Library and Art Museum, Inc.'s ability to continue as a going concern for one year after the date the financial statements are 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 William A. Farnsworth Library and Art Museum, Inc.'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 William A. Farnsworth Library and Art Museum, Inc.'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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating schedule of financial position, consolidating schedule of activities, and consolidating schedule of expenses, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wipfli LLP

Wipfli LLP

South Portland, Maine
January 27, 2023

The William A. Farnsworth Library and Art Museum, Inc.

Consolidated Statements of Financial Position

<i>September 30,</i>	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,795,740	\$ 731,252
Restricted cash	32,002	175,796
Total cash and cash equivalents	1,827,742	907,048
Accounts receivable	40,582	103,384
Contributions receivable, current	534,937	745,077
Inventories	255,761	287,908
Prepaid expenses	39,313	23,123
Total current assets	2,698,335	2,066,540
Assets whose use is limited		
Endowment investments	16,228,528	18,745,895
Perpetual trust held by others	6,007,772	7,722,116
Charitable lead interest trust held by others	65,639	128,152
Total assets whose use is limited	22,301,939	26,596,163
Other assets		
Contributions receivable	701,119	839,454
Note receivable	-	7,428,935
Total other assets	701,119	8,268,389
Property and equipment	8,501,479	8,801,990
Total assets	\$ 34,202,872	\$ 45,733,082

The William A. Farnsworth Library and Art Museum, Inc.

Consolidated Statements of Financial Position - Continued

<i>September 30,</i>	2022	2021
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 135,343	\$ 235,982
Accrued expenses	139,228	137,471
Total current liabilities	274,571	373,453
Long term debt - net of current portion	-	11,645,129
Total liabilities	274,571	12,018,582
Net assets		
Without donor restriction		
Board designated	3,128,413	1,222,282
Undesignated	8,527,137	5,093,420
Total without donor restriction	11,655,550	6,315,702
With donor restriction		
Time and purpose restricted	2,147,938	5,592,320
Perpetual in nature	20,124,813	21,806,478
Total with donor restrictions	22,272,751	27,398,798
Total net assets	33,928,301	33,714,500
Total liabilities and net assets	\$ 34,202,872	\$ 45,733,082

See accompanying notes to financial statements.

The William A. Farnsworth Library and Art Museum, Inc.

Consolidated Statement of Activities

<i>Year ended September 30, 2022</i>	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue			
Admissions	\$ 452,162	\$ -	\$ 452,162
Contributions	1,657,941	283,222	1,941,163
Endowment utilized for operations	709,572	-	709,572
Income from perpetual trust	395,455	-	395,455
Building rent	75,108	-	75,108
Museum store	606,011	-	606,011
Other sources	181,973	-	181,973
Net assets released from restrictions	854,745	(854,745)	-
Total operating revenue	4,932,967	(571,523)	4,361,444
Operating expenses			
Program services			
Curatorial	2,244,235	-	2,244,235
Education	616,615	-	616,615
Museum store	675,481	-	675,481
Total program expenses	3,536,331	-	3,536,331
Management and administrative	877,087	-	877,087
Development	1,199,011	-	1,199,011
Total operating expenses	5,612,429	-	5,612,429
Change in net assets from operations	(679,462)	(571,523)	(1,250,985)
Non-operating activities			
Contributions for capital campaign	-	864,321	864,321
Contributions - endowment	-	32,680	32,680
Deaccessions of collection	2,148,205	-	2,148,205
Accessions	(316,520)	-	(316,520)
Forgiveness of debt	4,216,194	-	4,216,194
Investment income	(161,824)	(2,894,356)	(3,056,180)
Change in value of split interest agreements	-	(1,714,344)	(1,714,344)
Net assets released from restrictions	842,825	(842,825)	-
Endowment utilized for operations	(709,570)	-	(709,570)
Change in net assets - non-operating	6,019,310	(4,554,524)	1,464,786
Total change in net assets	5,339,848	(5,126,047)	213,801
Net assets at beginning of year	6,315,702	27,398,798	33,714,500
Net assets at end of year	\$ 11,655,550	\$ 22,272,751	\$ 33,928,301

See accompanying notes to financial statements.

The William A. Farnsworth Library and Art Museum, Inc.

Consolidated Statement of Activities

<i>Year ended September 30, 2021</i>	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue			
Admissions	\$ 452,780	\$ -	\$ 452,780
Contributions	1,831,088	229,523	2,060,611
Government grants	611,306	-	611,306
Endowment utilized for operations	628,648	-	628,648
Income from perpetual trust	355,013	-	355,013
Building rent	63,920	-	63,920
Museum store	663,465	-	663,465
Other sources	129,766	-	129,766
Net assets released from restrictions	700,178	(700,178)	-
Total operating revenue	5,436,164	(470,655)	4,965,509
Operating expenses			
Program services			
Curatorial	1,905,528	-	1,905,528
Education	447,171	-	447,171
Museum store	667,882	-	667,882
Total program expenses	3,020,581	-	3,020,581
Management and administrative	1,214,502	-	1,214,502
Development	954,515	-	954,515
Total operating expenses	5,189,598	-	5,189,598
Change in net assets from operations	246,566	(470,655)	(224,089)
Non-operating activities			
Contributions for capital campaign	-	812,078	812,078
Contributions - endowment	-	1,404,837	1,404,837
Investment income	190,764	2,389,297	2,580,061
Change in value of split interest agreements	-	877,669	877,669
Net assets released from restrictions	1,309,449	(1,309,449)	-
Endowment utilized for operations	(628,650)	-	(628,650)
Change in net assets - non-operating	871,563	4,174,432	5,045,995
Total change in net assets	1,118,129	3,703,777	4,821,906
Net assets at beginning of year	5,197,573	23,695,021	28,892,594
Net assets at end of year	\$ 6,315,702	\$ 27,398,798	\$ 33,714,500

See accompanying notes to financial statements.

The William A. Farnsworth Library and Art Museum, Inc.

Consolidated Statement of Functional Expense

<i>Year ended September 30, 2022</i>	Curatorial	Education	Museum Store	Management and General	Development	Total
Salaries	\$ 841,705	\$ 348,716	\$ 251,623	\$ 342,316	\$ 645,831	\$ 2,430,191
Benefits and payroll taxes	138,542	60,998	43,116	59,276	77,154	379,086
Cost of sales - inventory	-	-	281,118	-	-	281,118
Utilities	273,194	36,426	7,285	40,069	7,285	364,259
Exhibits	74,799	-	-	-	-	74,799
Advertising	20,935	6,456	1,463	32,057	32,502	93,413
Contract labor	-	23,350	-	-	-	23,350
Maintenance	106,356	14,181	2,836	7,102	2,836	133,311
Insurance	84,683	5,343	1,069	18,393	1,069	110,557
Other services	136,729	9,812	14,489	(5,838)	101,042	256,234
Supplies and materials	60,541	33,344	18,841	32,018	16,912	161,656
Cultivation	425	1,289	-	2,570	19,248	23,532
Equipment	25,130	3,351	670	3,686	670	33,507
Travel	5,631	2,469	62	337	1,404	9,903
Professional and other fees	11,739	2,885	20,923	157,914	185,253	378,714
Printing	6,879	1,987	-	930	22,491	32,287
Interest	-	-	-	71,920	-	71,920
Postage and shipping	711	53	8,788	507	4,928	14,987
Lease and rental expense	12,026	8,458	2,526	17,906	15,916	56,832
Telephone and technology	12,874	1,409	282	1,550	282	16,397
Software maintenance	7,871	-	5,109	32	45,431	58,443
Employee development	-	1,845	680	4,479	1,669	8,673
Dues and subscription	9,884	3,205	1,426	1,245	2,469	18,229
Bad debts	-	-	-	34,150	-	34,150
Other	52,387	2,269	180	(3,392)	1,327	52,771
Depreciation	361,194	48,769	12,995	57,860	13,292	494,110
Subtotal	2,244,235	616,615	675,481	877,087	1,199,011	5,612,429
Accessions	316,520	-	-	-	-	316,520
Total	\$ 2,560,755	\$ 616,615	\$ 675,481	\$ 877,087	\$ 1,199,011	\$ 5,928,949

See accompanying notes to financial statements.

The William A. Farnsworth Library and Art Museum, Inc.

Consolidated Statement of Functional Expense

<i>Year ended September 30, 2021</i>	Curatorial	Education	Museum Store	Management and General	Development	Total
Salaries	\$ 790,359	\$ 264,121	\$ 211,369	\$ 308,407	\$ 618,309	\$ 2,192,565
Benefits and payroll taxes	138,405	37,603	34,263	68,180	72,614	351,065
Cost of sales - inventory	-	-	348,168	-	-	348,168
Utilities	225,386	30,052	6,010	33,057	6,010	300,515
Exhibits	30,418	-	-	-	-	30,418
Advertising	17,896	4,968	379	19,508	25,312	68,063
Contract labor	-	17,365	-	-	-	17,365
Maintenance	83,303	11,107	2,221	3,055	2,221	101,907
Insurance	83,070	5,261	1,052	18,971	1,052	109,406
Other services	238,858	9,807	1,831	(2,490)	84,357	332,363
Supplies and materials	43,351	24,975	24,386	21,239	6,678	120,629
Cultivation	2,093	727	-	755	10,266	13,841
Equipment	21,565	2,875	575	6,191	575	31,781
Travel	3,181	1,966	15	78	320	5,560
Professional and other fees	12,923	3,720	17,043	100,785	34,181	168,652
Printing	8,622	1,619	-	1,124	31,237	42,602
Interest	-	-	-	164,709	-	164,709
Postage and shipping	2,269	406	7,701	2,220	6,547	19,143
Lease and rental expense	1,620	2,160	-	28,569	2,379	34,728
Telephone and technology	12,321	1,342	268	1,479	268	15,678
Software maintenance	6,432	-	7,292	1,133	40,824	55,681
Accessions	25,000	-	-	-	-	25,000
Employee development	-	16,078	78	5,726	2,832	24,714
Dues and subscription	14,473	2,229	635	1,952	2,630	21,919
Bad debts	-	-	-	8,470	-	8,470
Other	95,654	1,632	(22)	(5,877)	977	92,364
Depreciation	48,329	7,158	4,618	427,261	4,926	492,292
Total	\$ 1,905,528	\$ 447,171	\$ 667,882	\$ 1,214,502	\$ 954,515	\$ 5,189,598

See accompanying notes to financial statements.

The William A. Farnsworth Library and Art Museum, Inc.

Consolidated Statements of Cash Flows

Year Ended September 30,	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 213,801	\$ 4,821,906
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net (gain) loss on investments	3,224,174	(2,441,762)
Change in value of split interest agreements	1,714,344	(877,669)
Amortization	62,513	72,113
Forgiveness of debt	(4,216,194)	-
Contributions for endowment and deaccessions	(32,680)	(1,404,837)
Depreciation	494,110	492,292
Provision for bad debts	34,150	8,470
Deaccessions of collection	(2,148,205)	-
Purchase of collection items	316,520	25,000
(Increase) decrease in:		
Accounts receivable	62,802	(49,847)
Contributions receivable	296,825	168,819
Inventory	32,147	26,488
Prepaid expenses	(16,190)	54,930
Increase (decrease) in:		
Accounts payable and accrued expenses	(98,882)	87,058
Net cash flows from operating activities	(60,765)	982,961
Cash flows from investing activities:		
Net deaccessions (accessions) of collection items	1,831,685	(25,000)
Proceeds from sale of investments	4,558,019	4,716,566
Purchase of investments	(5,264,826)	(5,771,052)
Purchase of property and equipment	(193,599)	(46,632)
Net cash flows from investing activities	931,279	(1,126,118)
Cash flows from financing activities:		
Principal payments on long-term debt	-	(747,850)
Net proceeds (repayments) on line of credit	-	(381,523)
Contributions for endowment	50,180	1,544,837
Net cash flows from financing activities	50,180	415,464
Net change in cash and cash equivalents	920,694	272,307
Cash and cash equivalents, beginning of year	907,048	634,741
Cash and cash equivalents, end of year	1,827,742	907,048
Supplemental disclosures of cash flow information:		
Cash and cash equivalents consist of:		
Cash and cash equivalents	1,795,740	731,252
Restricted cash	32,002	175,796
Total	\$ 1,827,742	\$ 907,048

See accompanying notes to financial statements.

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations

The William A. Farnsworth Library and Art Museum, Inc. (the Museum) is an independent not-for-profit organization dedicated to the collection, preservation, exhibition, research and interpretation of American art, with an emphasis on the art of the State of Maine and New England. Providing context for its art collection, an important focus of the Museum is the preservation and interpretation of two historic homes, the Farnsworth Homestead and the Olson House. The Museum is located in Rockland, Maine.

Farnsworth Real Estate, Inc. ("FRE") was formed as a public benefit corporation on February 9, 2015, under the laws of the State of Maine. FRE was organized to operate exclusively for charitable, religious, educational and scientific purposes by conducting and supporting activities which promote the advancement and further the aims of the Museum. FRE shall carry out its purposes by operating as a supporting organization as described in Section 509(a)(3) of the Internal Revenue Code.

Principles of Consolidation

The consolidated financial statements (the "financial statements") include the accounts of the Museum and FRE have been consolidated due to common control. All material inter-company accounts and transactions have been eliminated in the consolidation.

Basis of Presentation

The financial statements of the Museum have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). As a result, revenues and gains are reported when earned and expenses and losses are recorded when incurred. Net assets, support revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported, as follows:

- **Net assets without donor restrictions:** Net assets that are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of contribution. The governing board has designated, from net assets without donor restrictions, net assets for board-designated endowment.
- **Net Assets With Donor Restrictions:** Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released when the assets are placed in service.

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Museum considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

The Museum considers receivables to be uncollectible after all efforts for collection have been exhausted. Amounts deemed uncollectible are reserved through a charge to bad debt expense and a credit to allowance for doubtful accounts. At September 30, 2022 and 2021, all amounts were considered fully collectible and no allowance was deemed necessary.

Contributions Receivable

The Museum records unconditional promises to give as revenue and contributions receivable in the period received. Promises to give are reported net of an allowance for uncollectible amounts and discounted to the net present value of the future cash flows.

Inventory

Inventories are stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or net realizable value. Contributed inventory is recorded at fair market value on the date the inventory was received.

Investments

Investments are recorded at fair value. Net investment income is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses.

Endowment Funds

Investment and Endowment Spending Policy

The investment objective for the Museum's endowment funds is to provide average total earnings of 5%, plus the CPI for inflation. Funds will be invested to yield the rate on a "total return" basis (income, capital gains, and unrealized appreciation), commensurate with moderate risk of the total portfolio.

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Endowment Funds (Continued)

The Museum has implemented an endowment spending policy to appropriate investment income equal to 5% of the invested funds for current operations, based on the investments' average fair value for the preceding 16 quarters.

Relevant Law

The Board of Trustees of the Museum has interpreted the Maine Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Museum retains in perpetuity (a) the original value of gifts donated and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Museum's Board of Trustees in a manner consistent with the standard of prudence prescribed in UPMIFA. UPMIFA does not include board designated funds in its definition of endowment funds.

Property and Equipment

All acquisitions and improvements of property and equipment of \$2,000 or more are capitalized while all expenditures for repairs and maintenance that do not materially prolong the useful lives of assets are expensed. Purchased property and equipment is carried at cost. Depreciation is computed using the straight-line method over the estimated lives of the assets.

Collection

The collection of the Museum consists of approximately 15,000 objects, including paintings, watercolors, sculpture, prints, drawings, photographs, and historical artifacts (primarily related to the Homestead and Olson House). Consistent with the Museum's mission statement, the collection emphasizes works by American artists, especially artists who have worked in Maine. As a whole, the collection presents a survey of Maine's role in the history of American art from the late 18th century to the present. The Museum continues to actively collect American art through purchase and gifts. All works in the permanent collection are assigned a unique "accession" number and placed in secure storage when not on exhibit at the Museum or on loan to other museums. The Museum only lends to galleries and museums that meet prescribed security and climate standards and provide all risk insurance coverage. Records, including object, artist and donor files, are maintained for each work of art. The collection is inventoried and surveyed by staff and qualified conservators on an annual basis. The Museum maintains a blanket insurance policy of \$100 million for the collection and work on loan. Although a private, independent institution, the collection is maintained, added to, exhibited and interpreted for the education and enjoyment of the general public.

The Museum's policy is not to capitalize the collection; therefore, the value of the library and art collection held by the Museum is not included in the accompanying financial statements. Purchases of collection items are made from proceeds of deaccessions and gifts of cash and income from certain trusts restricted by donors for art acquisitions.

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Contribution Revenue

Contributions, including promises to give, are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution or promise to give contains a donor or grantor condition when both of the following are present:

- An explicit barrier, that is more than trivial, that must be overcome before the revenue can be earned and recognized.
- An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised, if the condition is not met.

Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received.

Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions.

Contributed property and equipment are recorded at fair value at the date of donation.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Museum.

Fees and Rental Revenue

Revenue is recognized from ticket sales at the time of admission and from gift shop sales at the time of purchase.

Education and public program revenue are typically paid prior to the program and are recognized over the period the related services are provided to customer. The performance obligation of delivering educational and public programs is simultaneously received and consumed by the customer; therefore, the revenue is recognized ratably over the course of the program period.

Rental income received in advance are deferred to the applicable period in which the related services are performed.

The Museum recognizes special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Non-Operating Activities

Non-operating activities consist of contributions for non-operating purposes, such as capital projects, life income funds, trusts and remainder interests, endowment, endowment income and capital campaigns.

Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting activities benefited. Indirect costs are allocated based on square footage for facility costs and time and effort for personnel and other costs.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense was \$93,413 and \$68,063 for the years ended 2022 and 2021, respectively.

Income Taxes

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Museum's tax-exempt purpose is subject to taxation on unrelated business income. In addition, the Museum qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as an organization that is not private foundation.

FRE is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, FRE has been classified as a supporting organization under Section 509(a)(3) of the Code.

Reclassification

Certain amounts, as previously reported in the 2021 financial statements, have been reclassified to conform to the 2022 presentation. Such reclassifications have no effect on reported amounts of net assets or change in net assets.

Upcoming Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for year ending 2023 for the Museum. The Museum is evaluating the impact of the new guidance on the financial statements..

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 2: Liquidity and Availability of Financial Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, approximate the following:

<i>Years Ended September 30,</i>	2022	2021
Cash and cash equivalents	\$ (35,428)	\$ 192,000
Accounts receivable	40,582	103,400
Contributions receivable	49,629	18,600
Charitable lead interest trust	65,000	69,000
Total financial assets available for general expenditure within one year	\$ 119,783	\$ 383,000

The Museum also has board-designated endowments that are subject to an annual spending rate of 5 percent. Although the Museum does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

The Museum does not have a formal liquidity policy but it regularly monitors its liquidity required to meet its operating needs and other contractual commitments. The Museum also has a line of credit, as described in Note 10, that can be drawn upon for liquidity. In addition, the Museum draws from its endowment based on a spending rate of 5% and receives an annual distribution from a perpetual trusts as noted in these financial statements.

Note 3: Concentration of Credit Risk

The Museum maintains its cash and restricted cash in multiple financial institutions. At times, these balances may exceed the federal insurance limits; however, the Museum has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these balances.

Note 4: Restricted Cash

Fee and expense reserve – The reserve is pursuant to the New Market Tax Credit financing for payment of future loan expenses. As of September 30, 2022 and 2021, the balance was \$0 and \$89,336, respectively.

Program reserve – The reserve is established from loan proceeds to be used for community program costs. As of September 30, 2022 and 2021, the balance was \$32,002 and \$86,460, respectively.

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 5: Contributions Receivable

Contributions receivable consist of the following as of September 30:

	2022	2021
Capital campaign	\$ 1,173,237	\$ 1,398,969
Annual fund and other	66,629	188,894
Endowment	55,000	72,500
	\$ 1,294,866	\$ 1,660,363

Contributions receivable, are expected to be received, as follows:

	2022	2021
Less than one year	\$ 534,937	\$ 745,077
One to five years	759,929	857,786
More than five years	-	57,500
	1,294,866	1,660,363
Allowance for uncollectible pledges	(750)	(750)
Discount on pledges receivable	(58,060)	(75,082)
	\$ 1,236,056	\$ 1,584,531

Note 6: Assets Limited as to Use

Investments consisted of the following at September 30:

	2022	2021
Cash and cash equivalents	\$ 1,953,292	\$ 538,912
Mutual funds - fixed income	6,883,561	9,602,993
Mutual funds - equities	432,245	1,382,917
Equities	4,478,623	4,355,619
U.S. Government bonds	1,350,836	1,288,242
Corporate bonds	864,133	1,284,011
International bonds	88,939	101,229
Alternative investments funds	176,899	191,972
Total	\$ 16,228,528	\$ 18,745,895

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 6: Assets Limited as to Use (Continued)

Net investment income consisted of the following for the years ended September 30:

	2022	2021
Net gain	\$ (3,224,174)	\$ 2,441,762
Interest and dividend income, net of fees	167,994	138,299
Total	\$ (3,056,180)	\$ 2,580,061

Commitments to Invest

Certain alternative investments have commitments to invest additional amounts in private equity funds of \$126,000 which, if requested, are expected to be satisfied through December 31, 2022. The limitations and restrictions on the Museum's ability to redeem or sell the private equity funds vary by investment.

Perpetual Trust and Split Interest Agreement

Beneficial Interest in Perpetual Trusts – The Museum is the beneficiary of several trusts created by donors, the assets of which are not in the possession of the Museum. The Museum has legally enforceable rights or claims to such assets, including the right to related income. The Museum's interest in these trusts is included in the financial statements at the fair value of the underlying investments. As a result of court rulings, effective January 2000, the Trustee is permitted to appropriate for distribution to the Museum the net realized, and unrealized appreciation of all trusts as determined to be prudent by the Trustee.

The Museum received a distribution of \$395,455 and \$355,013 for the years ended 2022 and 2021, respectively, related to the Museum's beneficial interest in perpetual trusts.

Charitable Lead Annuity Trust – The Museum is also the beneficiary of a charitable lead annuity trust created by a donor in 2006, the assets of which are not in the possession of the Museum. The Museum has the right to receive annual installments of \$68,920 over 16 years. The present value of the annuity payments, using a 5% discount rate, was \$65,639 and \$128,152 at September 30, 2022 and 2021, respectively.

Note 7: Endowment Funds

The endowment consists of donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees, are classified and reported based on the existence or absence of donor-imposed restrictions.

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 7: Endowment Funds (Continued)

Composition of endowment net assets by type of fund are as follows:

As of September 30, 2022	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 14,006,794	\$ 14,006,794
Board-designated endowment funds	2,221,734	-	2,221,734
	<u>\$ 2,221,734</u>	<u>\$ 14,006,794</u>	<u>\$ 16,228,528</u>

As of September 30, 2021	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 17,523,613	\$ 17,523,613
Board-designated endowment funds	1,222,282	-	1,222,282
	<u>\$ 1,222,282</u>	<u>\$ 17,523,613</u>	<u>\$ 18,745,895</u>

Changes in endowment net assets are, as follows:

Year ended September 30, 2022	Without Donor Restriction	With Donor Restriction	Total
Beginning of year	\$ 1,222,282	\$ 17,523,613	\$ 18,745,895
Contributions	1,198,205	50,180	1,248,385
Investment income	(161,824)	(2,894,356)	(3,056,180)
Amount appropriated	(36,929)	(672,643)	(709,572)
End of year	<u>\$ 2,221,734</u>	<u>\$ 14,006,794</u>	<u>\$ 16,228,528</u>

Year ended September 30, 2021	Without Donor Restriction	With Donor Restriction	Total
Beginning of year	\$ 1,066,519	\$ 14,183,128	\$ 15,249,647
Contributions	-	1,544,837	1,544,837
Investment income	190,764	2,389,297	2,580,061
Amount appropriated	(35,001)	(593,649)	(628,650)
End of year	<u>\$ 1,222,282</u>	<u>\$ 17,523,613</u>	<u>\$ 18,745,895</u>

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 7: Endowment Funds (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historic dollar value of the fund. At September 30, 2022 there were eight funds with a total fair value of \$3,860,000 which were below the historic dollar value of the funds by \$376,000. These deficiencies resulted from unfavorable market fluctuations continued appropriation that was deemed prudent by the Board of Trustees.

Note 8: Note Receivable

Note receivable consists of a note receivable from USBDC Investment Fund 119, LLC, interest due monthly at 1% for seven years. The note was forgiven in March 2022 as part of the exercise of the certian puts related to the New Market Tax Credit transaction.

Note 9: Property and Equipment

A summary of property and equipment is as follows as of September 30:

	2022	2021
Land	\$ 244,958	\$ 244,958
Buildings and improvements	16,526,419	16,421,855
Equipment, furniture and fixtures	781,145	692,118
Subtotal	17,552,522	17,358,931
Accumulated depreciation	(9,051,043)	(8,556,941)
Total	\$ 8,501,479	\$ 8,801,990

Note 10: Line of Credit

The Museum has an \$850,000 revolving line of credit with a local bank. Terms of the line of credit agreement provide for advances with interest at the Wall Street Journal's prime rate. The agreement is subject to renewal on May 20, 2023. Advances on the line of credit are secured by all business assets. There were no amounts outstanding under this line of credit as of September 30, 2022 and 2021, respectively.

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 11: Long Term Debt

Long-term debt consists of the following:

New Market Tax Credit (NMTTC) financing

The following four NMTTC loans were forgiven during 2022 as part of the exercise of the certain puts related to the NMTTC transaction. The Museum recognized a gain on extinguishment of debt of \$11,645,129. The Museum also recognized a loss on extinguishment of a note receivable of \$7,428,935. The net impact of \$4,216,194 is shown in the accompanying consolidated statement of activities as a gain on forgiveness of debt.

Note payable with CCM Community Development LI, LLC ("CCM") in the amount of \$2,212,835 ("CCM Note A"). The note bears interest at 1.291%. Commencing in May 2015, monthly payments of interest only are due through December 2022. Commencing in January 2023, monthly payments of principal and interest in an amount sufficient to amortize the outstanding balance will become due through maturity in December 2049.

Note payable with CCM in the amount of \$2,271,065 ("CCM Note B"). The note bears interest at 1.291%. Commencing in May 2015, monthly payments of interest only are due through December 2022. Commencing in January 2023, monthly payments of principal and interest in an amount sufficient to amortize the outstanding balance will become due through maturity in December 2049.

Note payable with MHIC NE CDE II Subsidiary 32 LLC ("MHIC") in the amount of \$5,216,100 ("MHIC Note A"). The note bears interest at 0.966%. Commencing in May 2015, monthly payments of interest only are due through December 2022. Commencing in January 2023, monthly payments of principal and interest in an amount sufficient to amortize the outstanding balance will become due through maturity in December 2049.

Note payable with MHIC NE CDE II Subsidiary 32 LLC ("MHIC") in the amount of \$2,301,400 ("MHIC Note B"). The note bears interest at 0.966%. Commencing in May 2015, monthly payments of interest only are due through December 2022. Commencing in January 2023, monthly payments of principal and interest in an amount sufficient to amortize the outstanding balance will become due through maturity in December 2049.

Debt issuance cost on the above notes was fully amortized during 2022.

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 12: Net Assets

Net assets without donor restrictions that are board-designated are for the following purposes at September 30:

	2022	2021
Olson House quasi endowment	\$ 253,164	\$ 302,084
Collections quasi endowment	770,365	920,198
Collections - Drexler Fund quasi endowment	1,198,205	-
Collections - Drexler Fund	791,412	-
Maintenance Fund	115,267	-
Total board-designated net assets	\$ 3,128,413	\$ 1,222,282

Net assets with donor restrictions are available for the following purposes at September 30:

	2022	2021
Time and purpose restricted		
Beneficial interest in charitable lead trust	\$ 65,639	\$ 128,152
Facilities	13,085	2,457,577
Education and operations	145,800	1,418,390
Exhibitions and collections	41,432	69,682
Capital Campaign	1,881,982	1,518,519
Total time and purpose restricted	2,147,938	5,592,320
Perpetual in nature		
Perpetual trusts	6,007,772	7,722,116
Education and operations	5,987,405	5,954,725
Maintenance	8,129,637	8,129,637
Total perpetual in nature	20,124,814	21,806,478
Total net assets with donor restrictions	\$ 22,272,752	\$ 27,398,798

Net assets released from restrictions consist of the following for the years ended:

	2022	2021
Debt reduction	\$ -	\$ 694,000
Facilities	62,513	440,026
Education and operations	325,083	495,240
Exhibitions and collections	119,450	41,900
Capital campaign expenses and initiatives	517,881	338,461
Total net assets released from restrictions	1,024,927	2,009,627

As presented in the statement of activities:

Net assets released from restrictions - operations	854,745	700,178
Net assets released from restrictions - non-operating activities	842,825	1,309,449
Total	\$ 1,697,570	\$ 2,009,627

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 13: Leases

The Museum has entered into two operating leases for office equipment.

At September 30, 2022, the future minimum lease obligations consisted of the following for the years ending:

2023	\$	23,360
2024		23,360
2025		20,970
2026		20,492
2027		15,133
Total	\$	103,315

Note 14: Pension Benefit Plan

The Museum maintains a 403(b) plan that covers substantially all employees who work at least 1,000 hours annually. Contributions to the plan are discretionary. There were no contributions to the plan for the years ended 2022 and 2021.

Note 15: Fair Value Measurements

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

- Level 1 – Quoted prices are available in active markets for identical assets and liabilities that an entity has the ability to access at a measurement date.
- Level 2 – Pricing inputs other than exchange quoted prices in active markets that are observable for the specific asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 – Pricing inputs that are unobservable inputs for the asset or liability in which little or no market activity is available for the asset or liability at the measurement date. The inputs into the determination of fair value require significant management judgment or estimation.

For the years ended 2022 and 2021, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Mutual Funds

The fair value of mutual funds is based on quoted market prices which represent the net asset value of shares held by the Museum at year-end.

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 15: Fair Value Measurements (Continued)

Equities

The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Bonds

Government, corporate, and international bonds are valued at fair value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Private Equity Funds

The fair value of the private equity funds is estimated using the reported net asset value of the Museum's ownership interest.

Beneficial Interest in Perpetual Trusts

The fair value of the beneficial interest in perpetual trusts is valued using an income approach and is based on the fair value of the underlying assets in the trust, which approximates the future estimated cash flows from the trusts.

Beneficial Interest in Charitable Lead Annuity Trust

The fair value of the beneficial interest in the charitable lead annuity trust is valued using an income approach and is based on the present value of future cash flows discounted at 5%.

The Museum reviews and evaluates the valuations provided by investment managers and believes that these valuations are a reasonable estimate of fair value. At each reporting period, if applicable, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 15: Fair Value Measurements (Continued)

Assets measured at fair value on a recurring basis are categorized, as follows:

<i>September 30, 2022</i>	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,953,292	\$ -	\$ -	\$ 1,953,292
Mutual funds - fixed income	6,883,561	-	-	6,883,561
Mutual funds - equities	432,245	-	-	432,245
Equities	4,478,623	-	-	4,478,623
U.S. Government bonds	-	1,350,836	-	1,350,836
Corporate bonds	-	864,133	-	864,133
International bonds	-	88,939	-	88,939
Perpetual trusts	-	-	6,007,772	6,007,772
Charitable lead interest trust	-	65,639	-	65,639
Total assets in fair value hierarchy	\$ 13,747,721	\$ 2,369,547	\$ 6,007,772	22,125,040
Investments measured at net asset value				176,899
Totals				\$ 22,301,939

<i>September 30, 2021</i>	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 538,912	\$ -	\$ -	\$ 538,912
Mutual funds - fixed income	9,602,993	-	-	9,602,993
Mutual funds - equities	1,382,917	-	-	1,382,917
Equities	4,355,619	-	-	4,355,619
U.S. Government bonds	-	1,288,242	-	1,288,242
Corporate bonds	-	1,284,011	-	1,284,011
International bonds	-	101,229	-	101,229
Perpetual trusts	-	-	7,722,116	7,722,116
Charitable lead interest trust	-	128,152	-	128,152
Total assets in fair value hierarchy	\$ 15,880,441	\$ 2,801,634	\$ 7,722,116	26,404,191
Investments measured at net asset value				191,972
Totals				\$ 26,596,163

The summary of changes in fair value associated with the Museum's Level 3 assets for the years ended 2022 and 2021 is, as follows:

	Perpetual Trusts
September 30, 2020	\$ 6,844,447
Change in value of perpetual trust	877,669
September 30, 2021	7,722,116
Change in value of perpetual trust	(1,714,344)
September 30, 2022	\$ 6,007,772

The William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 16: Business Risk and Contingencies

Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in value in the near-term would materially affect the amounts reported in the consolidated statements of financial position and activities.

Note 17: Paycheck Protection Program

The Museum recognized government grant revenue of \$417,800, from the Small Business Administration's (SBA) Paycheck Protection Program (PPP), for the year ended 2021. The Museum has determined the award is a conditional grant and has applied the policy as described in Note 1. Accordingly, the award is reported as a refundable advance liability until the conditions are substantially met or explicitly waived. The Museum has interpreted the condition of the award to be the incurrence of eligible expenditures, adjusted for any decrease in full time equivalents and or salary/wage limitations, recognized in stages over the covered period of either 8 or 24 weeks.

Note 18: Evaluation of Subsequent Events

The Museum has evaluated subsequent events through January 27, 2023, which is the date of the opinion on these financial statements, which represents the date on which the financial statements were available to be issued.

The William A. Farnsworth Library and Art Museum, Inc.

Consolidating Schedule of Financial Position

September 30, 2022

ASSETS	Museum	Real Estate	Eliminations	Total
Current assets				
Cash and cash equivalents	\$ 1,795,740	\$ -	\$ -	\$ 1,795,740
Restricted cash	32,002	-	-	32,002
Accounts receivable	40,582	-	-	40,582
Contributions receivable, current	534,937	-	-	534,937
Inventories	255,761	-	-	255,761
Prepaid expenses and other	39,313	-	-	39,313
Total current assets	2,698,335	-	-	2,698,335
Assets whose use is limited				
Endowment Investments	16,228,528	-	-	16,228,528
Perpetual trust held by others	6,007,772	-	-	6,007,772
Charitable lead interest trust held by others	65,639	-	-	65,639
Total assets whose use is limited	22,301,939	-	-	22,301,939
Other assets				
Contributions receivable	701,119	-	-	701,119
Total other assets	701,119	-	-	701,119
Property and equipment	8,501,479	-	-	8,501,479
Total assets	\$ 34,202,872	\$ -	\$ -	\$ 34,202,872
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 135,343	\$ -	\$ -	\$ 135,343
Accrued liabilities	139,228	-	-	139,228
Total current liabilities	274,571	-	-	274,571
Net assets	33,928,301	-	-	33,928,301
Total liabilities and net assets	\$ 34,202,872	\$ -	\$ -	\$ 34,202,872

See Independent Auditor's Report on Supplementary Information.

The William A. Farnsworth Library and Art Museum, Inc.

Consolidating Schedule of Activities

<i>Year ended September 30, 2022</i>	Museum	Real Estate	Eliminations	Total
Operating revenue				
Admissions	\$ 452,162	\$ -	\$ -	\$ 452,162
Contributions	1,941,160	-	-	1,941,160
Contributions - related party	80,171	-	(80,171)	-
Endowment utilized in operations	709,572	-	-	709,572
Income from Perpetual Trust	395,455	-	-	395,455
Building rent	42,642	130,466	(98,000)	75,108
Gift shop sales	606,011	-	-	606,011
Other sources	181,940	33	-	181,973
Total operating revenue	4,409,113	130,499	(178,171)	4,361,441
Operating expenses	5,137,281	653,319	(178,171)	5,612,429
Change in net assets from operations	(728,168)	(522,820)	-	(1,250,988)
Non-operating activities				
Contributions	864,324	-	-	864,324
Contributions - endowment	32,680	-	-	32,680
Deaccessions of collection	2,148,205	-	-	2,148,205
Accessions	(316,520)	-	-	(316,520)
Forgiveness of debt	(7,428,935)	11,645,129	-	4,216,194
Investment income	(3,056,180)	-	-	(3,056,180)
Change in value of split interest agreements	(1,714,344)	-	-	(1,714,344)
Endowment utilized in operations	(709,570)	-	-	(709,570)
Net change in net assets - non-operating	(10,180,340)	11,645,129	-	1,464,789
Change in net assets	(10,908,508)	11,122,309	-	213,801
Transfers	9,903,292	(9,903,292)	-	-
Net assets - beginning of year	34,933,517	(1,219,017)	-	33,714,500
Net assets - end of year	\$ 33,928,301	\$ -	\$ -	\$ 33,928,301

See Independent Auditor's Report on Supplementary Information.

The William A. Farnsworth Library and Art Museum, Inc.

Consolidating Schedule of Expenses

<i>Year ended September 30, 2022</i>	Museum	Real Estate	Eliminations	Total
Salaries	\$ 2,430,191	\$ -	\$ -	\$ 2,430,191
Benefits and payroll taxes	379,086	-	-	379,086
Cost of sales - inventory	281,118	-	-	281,118
Utilities	364,259	-	-	364,259
Exhibits	74,799	-	-	74,799
Advertising	93,413	-	-	93,413
Contract labor	23,350	-	-	23,350
Maintenance	133,311	-	-	133,311
Insurance	110,557	-	-	110,557
Other services	256,234	-	-	256,234
Supplies and materials	161,656	-	-	161,656
Cultivation	23,532	-	-	23,532
Equipment	33,507	-	-	33,507
Travel	9,903	-	-	9,903
Professional and other fees	291,315	87,399	-	378,714
Printing	32,287	-	-	32,287
Interest	10	71,910	-	71,920
Postage and shipping	14,987	-	-	14,987
Lease and rental expense	154,832	-	(98,000)	56,832
Telephone and technology	16,397	-	-	16,397
Software maintenance	58,443	-	-	58,443
Employee development	8,673	-	-	8,673
Dues and subscription	18,229	-	-	18,229
Bad debts	34,150	-	-	34,150
Other	52,681	80,261	(80,171)	52,771
Depreciation	80,361	413,749	-	494,110
Total	\$ 5,137,281	\$ 653,319	\$ -	\$ 5,612,429

See Independent Auditor's Report on Supplementary Information.