

Farnsworth Art Museum

Financial Statements

September 30, 2023 and 2022



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 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, 2023 and 2022, 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, 2023 and 2022, and the changes in its net assets and its cash flows 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.



Wipfli LLP

South Portland, Maine
February 3, 2024

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

Statements of Financial Position

<i>September 30,</i>	2023	Consolidated 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,379,572	\$ 1,795,740
Restricted cash	31,971	32,002
Total cash and cash equivalents	1,411,543	1,827,742
Accounts receivable	60,751	40,582
Contributions receivable, current	936,971	534,937
Inventories	270,464	255,761
Prepaid expenses	87,744	39,313
Total current assets	2,767,473	2,698,335
Assets whose use is limited		
Endowment investments	17,054,989	16,228,528
Perpetual trust held by others	6,375,989	6,007,772
Charitable lead interest trust held by others	-	65,639
Total assets whose use is limited	23,430,978	22,301,939
Other assets		
Contributions receivable	1,006,598	701,119
Property and equipment	8,239,774	8,501,479
Total assets	\$ 35,444,823	\$ 34,202,872

See accompanying notes to financial statements.

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

Statements of Financial Position - Continued

<i>September 30,</i>	2023	Consolidated 2022
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 136,566	\$ 135,343
Accrued expenses	182,437	139,228
Total liabilities	319,003	274,571
Net assets		
Without donor restrictions		
Board designated	2,521,880	3,128,413
Undesignated	8,097,760	8,527,137
Total without donor restrictions	10,619,640	11,655,550
With donor restriction		
Time and purpose restricted	4,008,509	2,147,937
Perpetual in nature	20,497,671	20,124,814
Total with donor restrictions	24,506,180	22,272,751
Total net assets	35,125,820	33,928,301
Total liabilities and net assets	\$ 35,444,823	\$ 34,202,872

See accompanying notes to financial statements.

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

Statement of Activities

<i>Year Ended September 30, 2023</i>	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue			
Admissions	\$ 609,062	\$ -	\$ 609,062
Contributions	2,380,034	1,340,415	3,720,449
Endowment utilized for operations	956,404	-	956,404
Income from perpetual trust	347,227	-	347,227
Building rent	104,135	-	104,135
Museum store	596,709	-	596,709
Other sources	123,944	-	123,944
Net assets released from restrictions	1,049,447	(1,049,447)	-
Total operating revenue	6,166,962	290,968	6,457,930
Operating expenses			
Program services			
Curatorial	2,792,251	-	2,792,251
Education	751,676	-	751,676
Museum store	722,127	-	722,127
Total program expenses	4,266,054	-	4,266,054
Management and administrative	768,448	-	768,448
Development	1,481,097	-	1,481,097
Total operating expenses	6,515,599	-	6,515,599
Change in net assets from operations	(348,637)	290,968	(57,669)
Non-operating activities			
Contributions for capital purposes	-	690,000	690,000
Contributions - endowment	-	4,640	4,640
Accessions	(617,489)	-	(617,489)
Investment income	203,099	1,563,125	1,766,224
Change in value of split interest agreements	-	368,217	368,217
Net assets released from restrictions	683,521	(683,521)	-
Endowment utilized for operations	(956,404)	-	(956,404)
Change in net assets - non-operating	(687,273)	1,942,461	1,255,188
Total change in net assets	(1,035,910)	2,233,429	1,197,519
Net assets at beginning of year	11,655,550	22,272,751	33,928,301
Net assets at end of year	\$ 10,619,640	\$ 24,506,180	\$ 35,125,820

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	181,975	-	181,975
Net assets released from restrictions	854,745	(854,745)	-
Total operating revenue	4,932,969	(571,523)	4,361,446
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	(679,460)	(571,523)	(1,250,983)
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	(709,572)	-	(709,572)
Change in net assets - non-operating	6,019,308	(4,554,524)	1,464,784
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.

Statement of Functional Expense

<i>Year Ended September 30, 2023</i>	Curatorial	Education	Museum Store	Management and General	Development	Total
Salaries	\$ 1,162,957	\$ 417,714	\$ 196,519	\$ 433,986	\$ 799,349	\$ 3,010,525
Employee benefits and taxes	166,279	69,155	28,032	98,296	88,600	450,362
Cost of sales	-	-	287,970	-	-	287,970
Utilities	233,392	31,119	6,225	34,227	6,225	311,188
Exhibits	148,134	2,000	-	-	-	150,134
Marketing and advertising	84,649	27,049	34,121	17,632	13,003	176,454
Contract labor	-	19,487	-	-	-	19,487
Maintenance and repairs	155,749	20,175	4,035	22,192	4,035	206,186
Insurance	92,879	6,204	1,241	10,845	1,241	112,410
Other Services	116,736	19,198	20,355	14,832	276,254	447,375
Supplies and materials	49,648	22,478	15,265	16,738	38,909	143,038
Cultivation	10,556	5,962	137	754	20,251	37,660
Equipment expense	25,793	3,645	688	3,783	688	34,597
Travel	16,695	7,191	7,707	443	16,921	48,957
Professional and other fees	13,614	2,824	66,055	54,404	12,596	149,493
Printing	13,248	6,887	-	1,836	23,702	45,673
Postage and shipping	231	86	9,424	1,230	6,084	17,055
Lease expense	38,836	10,151	518	2,847	83,567	135,919
Telephone and internet	14,846	1,662	332	1,827	332	18,999
Software maintenance	14,925	-	11,729	-	50,465	77,119
Employee development	284	23,343	224	32	3,640	27,523
Dues and subscriptions	15,268	4,067	727	1,966	2,430	24,458
Bad debts	-	-	-	2,851	-	2,851
Other expenses	71,733	560	117	10,962	112	83,484
Depreciation	345,799	50,719	30,706	36,765	32,693	496,682
Subtotals	2,792,251	751,676	722,127	768,448	1,481,097	6,515,599
Accessions	617,489	-	-	-	-	617,489
Totals	\$ 3,409,740	\$ 751,676	\$ 722,127	\$ 768,448	\$ 1,481,097	\$ 7,133,088

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	-	-	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 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
Subtotals	2,244,235	616,615	675,481	877,087	1,199,011	5,612,429
Accessions	316,520	-	-	-	-	316,520
Totals	\$ 2,560,755	\$ 616,615	\$ 675,481	\$ 877,087	\$ 1,199,011	\$ 5,928,949

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

Statements of Cash Flows

<i>Year Ended September 30,</i>	2023	Consolidated 2022
Cash flows from operating activities:		
Change in net assets	\$ 1,197,519	\$ 213,801
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net (gain) loss on investments	(1,418,361)	3,224,174
Change in value of split interest agreements	(368,217)	1,714,344
Forgiveness of debt	-	(4,216,194)
Contributions for endowment and capital purposes	(694,640)	(32,680)
Depreciation	496,682	494,110
Provision for bad debts	2,851	34,150
Deaccessions of collection	-	(2,148,205)
Purchase of collection items	617,489	316,520
(Increase) decrease in:		
Accounts receivable	(20,169)	62,802
Contributions receivable	(32,364)	296,825
Charitable lead interest trust	65,639	62,513
Inventory	(14,703)	32,147
Prepaid expenses	(48,431)	(16,190)
Increase (decrease) in:		
Accounts payable and accrued expenses	44,432	(98,882)
Net cash flows from operating activities	(172,273)	(60,765)
Cash flows from investing activities:		
Net deaccessions (accessions) of collection items	(617,489)	1,831,685
Proceeds from sale of investments	10,426,077	4,558,019
Purchase of investments	(9,834,177)	(5,264,826)
Purchase of property and equipment	(234,977)	(193,599)
Net cash flows from investing activities	(260,566)	931,279
Cash flows from financing activities:		
Contributions for endowment and capital purposes	16,640	50,180
Net cash flows from financing activities	16,640	50,180
Net change in cash and cash equivalents	(416,199)	920,694
Cash and cash equivalents, beginning of year	1,827,742	907,048
Cash and cash equivalents, end of year	\$ 1,411,543	\$ 1,827,742
Supplemental disclosures of cash flow information:		
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 1,379,572	\$ 1,795,740
Restricted cash	31,971	32,002
Total cash and cash equivalents	\$ 1,411,543	\$ 1,827,742

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. FRE was dissolved as of June 30, 2022.

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 a 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, 2023 and 2022, 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.

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.

Collection items are held for public exhibition and education in a furtherance of public service rather than financial gain; are protected, kept encumbered, cared for and preserved; and are subject to a policy that requires proceeds from the sales of collection items to be used to acquire other items for collections.

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 \$176,454 and \$93,413 for the years ended 2023 and 2022, 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 has been classified as an organization that is not private foundation.

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>	2023	2022
Cash and cash equivalents	\$ (241,629)	\$ (35,428)
Accounts receivable	60,751	40,582
Contributions receivable	48,629	49,629
Charitable lead interest trust	-	65,639
Total financial assets available for general expenditure within one year	\$ (132,249)	\$ 120,422

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 William A. Farnsworth Library and Art Museum, Inc.

Notes to Financial Statements

Note 2: Liquidity and Availability of Financial Resources (Continued)

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 an \$850,000 line of credit, as described in Note 9, 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: Contributions Receivable

Contributions receivable consist of the following as of September 30:

	2023	2022
Capital campaign	\$ 782,835	\$ 1,173,237
Capital projects	690,000	-
Programs	500,000	-
Annual fund and other	51,129	66,629
Endowment	35,000	55,000
Totals	\$ 2,058,964	\$ 1,294,866

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

	2023	2022
Less than one year	\$ 936,971	\$ 534,937
One to five years	1,121,993	759,929
	2,058,964	1,294,866
Allowance for uncollectible pledges	(750)	(750)
Discount on pledges receivable (approximates 3%)	(114,645)	(58,060)
Contributions receivable, net	\$ 1,943,569	\$ 1,236,056

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

Notes to Financial Statements

Note 5: Assets Limited as to Use

Investments consisted of the following at September 30:

	2023	2022
Cash and cash equivalents	\$ 290,174	\$ 1,953,292
Mutual funds - fixed income	3,074,862	6,883,561
Mutual funds - equities	1,232,876	432,245
Equities	11,523,792	4,478,623
U.S. Government bonds	-	1,350,836
Corporate bonds	841,622	864,133
International bonds	-	88,939
Alternative investments funds	91,663	176,899
Totals	\$ 17,054,989	\$ 16,228,528

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

	2023	2022
Net gain	\$ 1,418,361	\$ (3,224,174)
Interest and dividend income, net of fees	347,863	167,994
Totals	\$ 1,766,224	\$ (3,056,180)

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, 2023. The limitations and restrictions on the Museum's ability to redeem or sell the private equity funds vary by investment.

Perpetual Trust

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 \$347,227 and \$395,455 for the years ended 2023 and 2022, respectively, related to the Museum's beneficial interest in perpetual trusts.

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

Notes to Financial Statements

Note 6: 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.

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

As of September 30, 2023	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 14,903,038	\$ 14,903,038
Board-designated endowment funds	2,151,951	-	2,151,951
Totals	\$ 2,151,951	\$ 14,903,038	\$ 17,054,989

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
Totals	\$ 2,221,734	\$ 14,006,794	\$ 16,228,528

Changes in endowment net assets are, as follows:

Year ended September 30, 2023	Without Donor Restriction	With Donor Restriction	Total
Beginning of year	\$ 2,221,734	\$ 14,006,794	\$ 16,228,528
Contributions	-	16,640	16,640
Investment income	203,099	1,563,125	1,766,224
Amount appropriated	(272,882)	(683,521)	(956,403)
End of year	\$ 2,151,951	\$ 14,903,038	\$ 17,054,989

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	\$ 2,221,734	\$ 14,006,794	\$ 16,228,528

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

Notes to Financial Statements

Note 6: 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, 2023 there were four funds with a total fair value of \$3,738,000 which were below the historic dollar value of the funds by \$171,000. 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 7: 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, in the amount of \$7,428,935 was forgiven in March 2022 as part of the exercise of the certain puts related to the New Market Tax Credit transaction as discussed in Note 10.

Note 8: Property and Equipment

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

	2023	2022
Land	\$ 244,958	\$ 244,958
Buildings and improvements	16,590,787	16,526,419
Equipment, furniture and fixtures	951,754	781,145
Subtotals	17,787,499	17,552,522
Accumulated depreciation	(9,547,725)	(9,051,043)
Totals	\$ 8,239,774	\$ 8,501,479

Note 9: 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, 2024. 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, 2023 and 2022, respectively.

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

Notes to Financial Statements

Note 10: Long Term Debt

New Market Tax Credit (NMTC) financing

The following four NMTC loans were forgiven during 2022 as part of the exercise of the certain puts related to the NMTC 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.

Note 11: Net Assets

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

	2023	2022
Olson House quasi endowment	\$ 74,432	\$ 253,164
Collections quasi endowment	812,828	770,365
Collections - Drexler Fund quasi endowment	1,264,691	1,198,205
Collections - Drexler Fund	254,662	791,412
Maintenance Fund	115,267	115,267
Total board-designated net assets	\$ 2,521,880	\$ 3,128,413

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

Notes to Financial Statements

Note 11: Net Assets (Continued)

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

	2023	2022
Time and purpose restricted		
Beneficial interest in charitable lead trust	\$ -	\$ 65,639
Capital projects	690,000	-
Facilities	569,244	13,084
Education and operations	891,726	145,800
Exhibitions and collections	623,932	41,432
Capital Campaign	1,233,607	1,881,982
Total time and purpose restricted	4,008,509	2,147,937
Perpetual in nature		
Perpetual trusts	6,375,989	6,007,772
Education and operations	5,992,045	5,987,405
Maintenance	8,129,637	8,129,637
Total perpetual in nature	20,497,671	20,124,814
Total net assets with donor restrictions	\$ 24,506,180	\$ 22,272,751

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

	2023	2022
Beneficial interest in charitable lead trust	\$ 65,639	\$ 62,513
Facilities	210,957	208,553
Education and operations	832,083	789,173
Exhibitions and collections	32,500	119,450
Capital campaign expenses and initiatives	591,789	517,881
Total net assets released from restrictions	\$ 1,732,968	\$ 1,697,570
As presented in the statement of activities:		
Net assets released from restrictions - Operations	\$ 1,049,447	\$ 854,745
Net assets released from restrictions - Non-operating activities	683,521	842,825
Totals	\$ 1,732,968	\$ 1,697,570

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

Notes to Financial Statements

Note 12: 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 2023 and 2022.

Note 13: 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 2023 and 2022, 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.

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.

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

Notes to Financial Statements

Note 13: Fair Value Measurements (Continued)

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

<i>September 30, 2023</i>	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 290,174	\$ -	\$ -	\$ 290,174
Mutual funds - Fixed income	3,074,862	-	-	3,074,862
Mutual funds - Equities	1,232,876	-	-	1,232,876
Equities	11,523,792	-	-	11,523,792
Corporate bonds	-	841,622	-	841,622
Perpetual trusts	-	-	6,375,989	6,375,989
Total assets in fair value hierarchy	\$ 16,121,704	\$ 841,622	\$ 6,375,989	23,339,315
Investments measured at net asset value				91,663
Totals				\$ 23,430,978

<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

The summary of changes in fair value associated with the Museum's Level 3 assets for the years ended 2023 and 2022 is, as follows:

	Perpetual Trusts
September 30, 2021	\$ 7,722,116
Change in value of perpetual trust	(1,714,344)
September 30, 2022	6,007,772
Change in value of perpetual trust	368,217
September 30, 2023	\$ 6,375,989

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

Notes to Financial Statements

Note 14: 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 15: Evaluation of Subsequent Events

The Museum has evaluated subsequent events through February 3, 2024, 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.