



THE BARNES FOUNDATION
FINANCIAL STATEMENTS
JUNE 30, 2003

COGEN SKLAR LLP

Certified Public Accountants
Business Consultants
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THE BARNES FOUNDATION

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ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
The Barnes Foundation
Merion, Pennsylvania

We have reviewed the accompanying statement of financial position of The Barnes Foundation as of June 30, 2003, and the related statements of activities and cash flows for the six months then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of The Barnes Foundation.

A review consists principally of inquiries of Organization personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Cogen Sklar LLP

July 22, 2003

THE BARNES FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2003

ASSETS	
Cash	\$ 101,775
Contributions receivable	926,501
Gallery shop inventory	191,680
Prepaid and other assets	35,901
Investments	5,151,333
Objects of art	2,775,386
Property and equipment, net	<u>11,119,484</u>
TOTAL ASSETS	<u>\$20,302,060</u>
LIABILITIES AND NET ASSETS	
Accounts payable	\$ 881,678
Accrued expenses	54,155
Note payable	<u>6,223</u>
TOTAL LIABILITIES	<u>942,056</u>
NET ASSETS	
UNRESTRICTED	14,473,430
TEMPORARILY RESTRICTED	<u>4,886,574</u>
TOTAL NET ASSETS	<u>19,360,004</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$20,302,060</u>

See accountants' review report and notes to financial statements.

THE BARNES FOUNDATION
STATEMENT OF ACTIVITIES
SIX MONTHS ENDED JUNE 30, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND GAINS			
Investment income	\$ 8,082	\$ 39,149	\$ 47,231
Licensing and merchandising	16,349	-	16,349
Education revenue	19,805	-	19,805
Admissions and audio rentals	294,922	-	294,922
Gift shop sales	239,461	-	239,461
Contributions	641,060	516,600	1,157,660
Other revenue	2,704	-	2,704
	<u>1,222,383</u>	<u>555,749</u>	<u>1,778,132</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of program restrictions	<u>778,381</u>	<u>(778,381)</u>	<u>-</u>
TOTAL REVENUES AND GAINS	<u>2,000,764</u>	<u>(222,632)</u>	<u>1,778,132</u>
EXPENSES			
Salaries and wages	817,589	-	817,589
Payroll taxes and medical	165,757	-	165,757
Guards and security	174,351	-	174,351
Professional and consulting fees	701,797	-	701,797
Insurance	95,738	-	95,738
Repairs and maintenance	68,093	-	68,093
Occupancy costs	91,064	-	91,064
Travel and transportation	33,690	-	33,690
Office expenses and supplies	123,362	-	123,362
Miscellaneous	28,050	-	28,050
Publications	47,458	-	47,458
Cost of goods sold	108,089	-	108,089
Conservation	75,548	-	75,548
Depreciation	260,357	-	260,357
TOTAL EXPENSES	<u>2,790,943</u>	<u>-</u>	<u>2,790,943</u>
CHANGE IN NET ASSETS	(790,179)	(222,632)	(1,012,811)
NET ASSETS - BEGINNING OF PERIOD	<u>15,263,609</u>	<u>5,109,206</u>	<u>20,372,815</u>
NET ASSETS - END OF PERIOD	<u>\$14,473,430</u>	<u>\$ 4,886,574</u>	<u>\$19,360,004</u>

See accountants' review report and notes to financial statements.

THE BARNES FOUNDATION
STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$(1,012,811)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	260,357
Net unrealized loss on investments	(47,520)
Loss on sale of investments	28,661
Investment income reinvested, net of fees	(27,663)
(Increase) decrease in assets	
Accounts receivable	17,888
Contributions receivable	1,003,804
Gallery shop inventory	(9,637)
Prepaid and other assets	41,327
Increase in liabilities	
Accounts payable	50,182
Accrued payroll	<u>2,516</u>
Net cash provided by operating activities	<u>307,104</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	2,415,872
Purchases of investments	(2,929,577)
Purchase of property and equipment	<u>(17,057)</u>
Net cash used in investing activities	<u>(530,762)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on long term debt	<u>(1,677)</u>
 NET DECREASE IN CASH	 (225,335)
CASH - BEGINNING OF PERIOD	<u>327,110</u>
CASH - END OF PERIOD	<u>\$ 101,775</u>
 CASH PAID DURING THE PERIOD FOR:	
Interest	<u>\$ 355</u>

See accountants' review report and notes to financial statements.

THE BARNES FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Barnes Foundation (the Foundation) was chartered in 1922 as a privately endowed nonprofit educational institution by the Commonwealth of Pennsylvania for the purpose of conducting classes in art appreciation and horticulture. The Foundation includes a gallery, a country estate and an arboretum which are open to the public at designated times.

Basis of Presentation

The Foundation follows Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* to prepare its financial statements. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Restricted and Unrestricted Support

The Foundation follows Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made* in recording contributions received. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. There were no permanently restricted net assets.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates based on management's knowledge and experience. Accordingly, actual results could differ from those estimates.

Inventory

Gift shop inventory consists of purchased items and is stated at the lower of cost (determined by the first-in, first-out method) or market.

Investments

The Foundation follows Statement of Financial Accounting Standards Board (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." The Foundation carries its investments in marketable securities at market value.

Objects of Art

The Foundation is the owner of a collection of paintings, sculptures, antiques and other objects of art. Most of the collection objects were donated to the Foundation by its Founder and are recorded at a \$1 nominal value in accordance with a resolution of the Board of Trustees. Artwork contributed by others is valued at the fair market value on the date of the gift.

THE BARNES FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Assets are stated at cost. The cost of the property and equipment is depreciated over the estimated useful lives of the related assets on a straight-line basis.

Tax Status

The Foundation is incorporated in the Commonwealth of Pennsylvania and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 – CONCENTRATION OF CREDIT RISK INVOLVING CASH

At June 30, 2003, the Foundation has deposits with major financial institutions which exceed Federal Depository Insurance limits. These financial institutions have strong credit ratings, and management believes the credit risk related to these deposits is minimal.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

At June 30, 2003, the Foundation recorded the promises of funding from various sources:

<u>PERIODS ENDING JUNE 30,</u>	<u>TOTAL</u>
2004	\$ 846,031
2005	<u>100,000</u>
	946,031
Less: Discount to net present value	<u>(19,530)</u>
	<u>\$ 926,501</u>

The discount to net present value represents a discount for funding to be received in future years.

THE BARNES FOUNDATION
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2003

NOTE 4 – INVESTMENTS

Investments consist of the following:

	<u>Market Value</u>
United States Treasury Obligations	\$ 384,529
Government Securities	744,367
Money Market Funds	1,642,344
Corporate Stock	2,012,642
Corporate Bonds	367,451
	<u>\$5,151,333</u>

Investment income for the period ended June 30, 2003 is as follows:

Interest and dividends	\$ 47,320
Unrealized gain on investments	47,520
Loss on sale of investments	(28,661)
Investment fees	(18,948)
	<u>\$ 47,231</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 176,389
Gallery	11,869,650
Buildings and improvement	548,117
Greenhouse	715,505
Parking lot	1,575,212
Trucks	15,990
Furniture and fixtures	50,946
Equipment	93,057
	<u>15,044,866</u>
Less: Accumulated depreciation	<u>3,925,382</u>
	<u>\$11,119,484</u>

THE BARNES FOUNDATION
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2003

NOTE 6 – LONG TERM DEBT

Note payable to bank in monthly installments of \$338 including interest at 9.85% through February 2005. The truck is pledged as collateral.	\$ 6,223
Less: Current portion	<u>3,609</u>
	<u>\$ 2,614</u>

The minimum annual repayment requirements of long-term debt as of June 30, 2003 are as follows:

PERIODS ENDING JUNE 30,	AMOUNT
2004	3,609
2005	<u>2,614</u>
	<u>\$ 6,223</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

Court restricted funds	\$ 3,864,876
Barnesian Art Education for periods after June 30, 2003	47,170
Program support for periods after June 30, 2003	<u>974,528</u>
Total temporarily restricted net assets	<u>\$ 4,886,574</u>

In accordance with the settlement agreement between the Foundation and the de Mazia Trust in 1996, the Foundation was entitled to receive \$2,750,000, payable over eight years according to a payment schedule as outlined in the settlement agreement. The money is to be used to support the Barnesian Art Education Program, and is therefore, temporarily restricted. As of June 30, 2003, \$50,000 was payable to the Foundation, discounted to its present value of \$47,170.

THE BARNES FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS (Continued)

By Court decree, the Foundation was allowed a one-time international tour to exhibit its collection in order to raise the necessary funds to renovate the gallery, adjacent buildings and related structures. The amounts remaining as of December 31, 1998 that were received from these exhibitions have been restricted by the Court system. On February 3, 1999, the Orphan's Court authorized the release from this restriction of \$1,664,300 for qualifying expenditures as approved by the court. During 2000, \$671,560 was released from restriction to fund various specified projects under terms of the eighth petition to the court. The balance remaining in court restricted funds is \$3,864,876.

NOTE 8 – LEASES

The Foundation leases audio tour equipment and other equipment under leases expiring through February 2006. At June 30, 2003, the Foundation was obligated under noncancelable operating lease arrangements as follows:

<u>PERIODS ENDING JUNE 30,</u>	<u>AMOUNT</u>
2004	\$ 55,035
2005	24,329
2006	<u>2,237</u>
	<u>\$ 81,601</u>

NOTE 9 – PENSION PLAN

The Foundation has a 403(b) Elective Deferral Plan where eligible employees may elect to defer up to 6% of compensation and the Foundation will match up to 3%. The Foundation made contributions of \$7,268 for the six months ended June 30, 2003.

NOTE 10 – RELATED PARTY

The Barnes Society, a separate 501 c(3) entity, was formed in 1999. The Barnes Society collects membership fees and donations for the Foundation and remits the funds in pass through grants. There were \$50,000 in grants during the six months ended June 30, 2003.

THE BARNES FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 11 – LITIGATION AND CONTINGENCIES

In January 1996, the Foundation filed suit against the Township of Lower Merion, its Commissioners and certain individually named neighbors of the Foundation alleging violations of its civil rights. A counterclaim was filed against the Foundation alleging that the civil rights claims constituted an abuse of process. On June 3, 1996, the neighbor defendants' motion to dismiss was granted. On September 26, 1997, the Court granted the remaining defendants' motions for summary judgment against the Foundation. The Court reserved its decision on the Foundation's motion for summary judgment on the defendant's counter claim for abuse of process. On November 10-12, 1997, a motion was filed by the defendants in the civil rights suit for attorneys' fees and costs aggregating to \$1,806,160. On October 1, 1998 a settlement was reached where the Foundation paid \$100,000 to the Township of Lower Merion to be used for "charitable and civic" purposes and the governmental defendants withdrew their claims. The attorney fees and costs for the neighbor defendants of approximately \$440,000 are still pending, and the ultimate liability, if any, to the Foundation is yet to be determined.

NOTE 12 – OPERATIONS AND MANAGEMENT PLANS

The Foundation has incurred reductions in net assets of \$1,008,717 and \$1,110,160 in the years ended December 31, 2002 and 2001 respectively, and a reduction in net assets of \$1,012,811 in the six months ended June 30, 2003. Management has taken certain steps and will continue to explore plans to reduce expenses, increase revenue and find additional support. Management believes they will be successful in implementing their plans and can continue to meet their obligations as they become due during the ensuing year.

One initiative undertaken by the Foundation in 2002 was the filing of a petition in the Montgomery County Orphans' Court to relocate the Foundation's gallery collection from its present location to the City of Philadelphia and to make certain changes in the governance of the Foundation. Part of the Foundation's decision to seek Orphans' Court approval for these changes was \$1,550,000 of general operating support from three outside organizations, which was included in contribution revenue in the year ended December 31, 2002. Continued support from these organizations is dependent on the Foundation's continuing to seek Orphans' Court approval. To assist the Foundation in obtaining Orphans' Court approval, the funding organizations have also agreed to contribute funds to offset legal and development fees associated with the move. For the six months ended June 30, 2003, \$518,452 is included in contribution revenue to defray a substantial portion of these costs.