



THE BARNES FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 2003

TBF 005826

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 March 31, 2003, and the related statements of activities and cash flows for the three 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

May 2, 2003

THE BARNES FOUNDATION
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2003

ASSETS

Cash	\$ 204,574
Accounts receivable	1,014
Contributions receivable	1,816,604
Gallery shop inventory	168,780
Prepaid and other assets	58,100
Investments	4,745,850
Objects of art	2,775,387
Property and equipment, net	<u>11,247,914</u>

TOTAL ASSETS

\$ 21,018,223

LIABILITIES AND NET ASSETS

Accounts payable	\$ 1,005,960
Accrued expenses	81,352
Note payable	<u>7,072</u>

TOTAL LIABILITIES

1,094,384

NET ASSETS

UNRESTRICTED	14,906,418
TEMPORARILY RESTRICTED	<u>5,017,421</u>
TOTAL NET ASSETS	<u>19,923,839</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,018,223</u>

See accountants' review report and notes to financial statements.

THE BARNES FOUNDATION
STATEMENT OF ACTIVITIES
THREE MONTHS ENDED MARCH 31, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND GAINS (LOSS)			
Investment income (loss), net of fees	\$ 3,295	\$ (57,914)	\$ (54,619)
Licensing and merchandising	10,497	-	10,497
Education revenue	4,740	-	4,740
Admissions and audio rentals	157,108	-	157,108
Gift shop sales	95,430	-	95,430
Contributions	183,042	506,600	689,642
Other revenue	75	-	75
	<u>454,187</u>	<u>448,686</u>	<u>902,873</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
	<u>540,471</u>	<u>(540,471)</u>	<u>-</u>
TOTAL REVENUES AND GAINS (LOSS)			
	<u>994,658</u>	<u>(91,785)</u>	<u>902,873</u>
EXPENSES			
Salaries and wages	400,352	-	400,352
Payroll taxes and medical	80,969	-	80,969
Guards and security	77,828	-	77,828
Professional and consulting fees	350,809	-	350,809
Insurance	39,061	-	39,061
Repairs and maintenance	27,184	-	27,184
Occupancy costs	55,546	-	55,546
Travel and transportation	13,346	-	13,346
Office expenses and supplies	70,569	-	70,569
Miscellaneous	12,755	-	12,755
Publications	26,428	-	26,428
Cost of goods sold	39,440	-	39,440
Conservation	25,635	-	25,635
Depreciation	131,927	-	131,927
	<u>1,351,849</u>	<u>-</u>	<u>1,351,849</u>
TOTAL EXPENSES			
	<u>1,351,849</u>	<u>(91,785)</u>	<u>(448,976)</u>
CHANGE IN NET ASSETS			
	<u>(357,191)</u>	<u>(91,785)</u>	<u>(448,976)</u>
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>\$14,906,418</u>	<u>\$ 5,017,421</u>	<u>\$19,923,839</u>

See accountants' review report and notes to financial statements.

THE BARNES FOUNDATION
STATEMENT OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (448,976)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	131,927
Net unrealized loss on investments	19,836
Loss on sale of investments	57,760
Investment income reinvested, net of fees	(22,796)
Decrease in assets	
Accounts receivable	16,874
Contributions receivable	113,701
Gallery shop inventory	13,263
Prepaid and other assets	19,127
Increase in liabilities	
Accounts payable	174,463
Accrued payroll	<u>29,712</u>
Net cash provided by operating activities	<u>104,891</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	518,290
Purchases of investments	(727,832)
Purchase of property and equipment	<u>(17,057)</u>
Net cash used in investing activities	<u>(226,599)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on long term debt	<u>(828)</u>
 NET DECREASE IN CASH	(122,536)
 CASH - BEGINNING OF PERIOD	<u>327,110</u>
 CASH - END OF PERIOD	<u>\$ 204,574</u>
 CASH PAID DURING THE PERIOD FOR:	
Interest	<u>\$ 188</u>

See accountants' review report and notes to financial statements.

THE BARNES FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 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
MARCH 31, 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 March 31, 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 March 31, 2003, The Foundation recorded the promises of funding from various sources:

<u>PERIODS ENDING MARCH 31,</u>	<u>TOTAL</u>
2004	\$1,736,134
2005	100,000
	<u>1,836,134</u>
Less: Discount to net present value	<u>(19,530)</u>
	<u>\$1,816,604</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
MARCH 31, 2003

NOTE 4 – INVESTMENTS

Investments consist of the following:

	Market Value
United States Treasury Obligations	\$ 459,081
Government Securities	862,767
Money Market Funds	1,293,885
Corporate Stock	1,755,087
Corporate Bonds	375,030
	\$4,745,850

Investment loss for the period ended March 31, 2003 is as follows:

Interest and dividends	\$ 31,314
Unrealized loss on investments	(19,836)
Loss on sale of securities	(57,760)
Investment fees	(8,337)
	\$ (54,619)

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
	15,044,866
Less: Accumulated depreciation	3,796,952
	\$11,247,914

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THE BARNES FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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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.	\$ 7,072
Less: Current portion	<u>3,522</u>
	<u>\$ 3,550</u>

The minimum annual repayment requirements of long-term debt as of March 31, 2003 are as follows:

PERIODS ENDING MARCH 31,	AMOUNT
2004	3,522
2005	<u>3,550</u>
	<u>\$ 7,072</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

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

Court restricted funds	\$3,767,813
Barnesian Art Education for periods after March 31, 2003	47,170
Program support for periods after March 31, 2003	<u>1,202,438</u>
Total temporarily restricted net assets	<u>\$5,017,421</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 March 31, 2003, \$50,000 was payable to the Foundation, discounted to its present value of \$47,170.

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THE BARNES FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 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 2001, \$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 \$3,767,813 net of any investment gains or losses.

NOTE 8 – LEASES

The Foundation leases audio tour equipment and other equipment under leases expiring through February 2006. At March 31, 2003, the Foundation was obligated under noncancelable operating lease arrangements as follows:

<u>PERIODS ENDING MARCH 31,</u>	<u>AMOUNT</u>
2004	\$ 55,035
2005	37,249
2006	<u>3,076</u>
	<u>\$ 95,360</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%.

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 no pass through grants during the three months ended March 31, 2003.

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THE BARNES FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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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 \$448,976 in the quarter ended March 31, 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 quarter ended March 31, 2003, \$83,000 is included in contribution revenue to defray a substantial portion of these costs.