

New Britain Museum of American Art, Inc.

**Financial Statements
and Independent Auditor's Report**

June 30, 2022 and 2021

New Britain Museum of American Art, Inc.

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Independent Auditor's Report

To the Board of Trustees
New Britain Museum of American Art, Inc.

Opinion

We have audited the financial statements of New Britain Museum of American Art, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 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 present fairly, in all material respects, the financial position of New Britain Museum of American Art, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 New Britain Museum of American Art, 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 accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about New Britain Museum of American Art, Inc.'s ability to continue as a going concern for one year after the date that 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 New Britain Museum of American Art, 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 New Britain Museum of American Art, 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.



Hartford, Connecticut
October 25, 2022

New Britain Museum of American Art, Inc.

**Statements of Financial Position
June 30, 2022 and 2021**

	<u>Assets</u>	
	<u>2022</u>	<u>2021</u>
Assets		
Cash	\$ 879,617	\$ 612,418
Accounts receivable	6,824	3,104
Prepaid expenses	133,514	105,321
Inventory	160,929	139,120
Contributions and grants receivable, net	584,289	863,919
Investments	22,987,018	27,585,011
Beneficial interest in perpetual trusts	1,151,869	1,388,893
Land, property and equipment, net	22,310,980	23,015,533
Collection (Note 1)	-	-
	<u> </u>	<u> </u>
Total assets	<u>\$ 48,215,040</u>	<u>\$ 53,713,319</u>
	<u>Liabilities and Net Assets</u>	
Liabilities		
Lines of credit	\$ 150,009	\$ 460,708
Accounts payable and accrued liabilities	265,616	648,613
Deferred revenue	61,169	57,779
Liabilities under split-interest agreements	29,113	39,373
	<u> </u>	<u> </u>
Total liabilities	<u>505,907</u>	<u>1,206,473</u>
Net assets		
Net assets without donor restrictions		
Undesignated	23,124,448	22,936,068
Board-designated	14,271,420	17,587,081
	<u> </u>	<u> </u>
Total net assets without donor restrictions	37,395,868	40,523,149
Net assets with donor restrictions	<u>10,313,265</u>	<u>11,983,697</u>
Total net assets	<u>47,709,133</u>	<u>52,506,846</u>
Total liabilities and net assets	<u>\$ 48,215,040</u>	<u>\$ 53,713,319</u>

See Notes to Financial Statements.

New Britain Museum of American Art, Inc.

**Statements of Activities
Years Ended June 30, 2022 and 2021**

	2022	2021
Changes in net assets without donor restrictions		
Operating revenues		
Gifts, contributions and sponsorships	\$ 1,403,466	\$ 1,658,022
Government grants	194,050	63,602
Contribution - Employer Retention Tax credits	477,403	-
Contribution - PPP	-	331,000
Special events	20,433	29,055
Investment income, net	1,480,000	972,000
Admission and other revenues	296,668	100,763
Museum shop	170,528	120,549
Membership income	193,783	161,980
Net assets released from restrictions	1,001,395	1,440,165
Total operating revenues	<u>5,237,726</u>	<u>4,877,136</u>
Operating expenses		
Collections and exhibitions	1,723,312	1,604,970
Education	467,718	381,271
Membership and visitor services	397,937	303,851
Auxiliary activities	330,741	218,661
Total program services	<u>2,919,708</u>	<u>2,508,753</u>
Management and general	612,024	494,419
Fundraising	243,110	276,562
Total supporting services	<u>855,134</u>	<u>770,981</u>
Total operating expenses	<u>3,774,842</u>	<u>3,279,734</u>
Changes in net assets from operations	1,462,884	1,597,402
Changes in net assets from non-operating activities		
Government grants for capital improvements	-	1,043,147
Investment income, net	383,842	(308,087)
Realized and unrealized (loss) gain on investments, net	(4,105,732)	2,788,957
Proceeds from deaccessioned artwork	2,250	1,714
Depreciation	(866,340)	(782,021)
Acquisition of works of art	-	(728,859)
Interest expense	(4,185)	(7,560)
Change in net assets without donor restrictions	<u>(3,127,281)</u>	<u>3,604,693</u>
Changes in net assets with donor restrictions		
Gifts and contributions	560,126	413,385
Proceeds from deaccessioned artwork	2,363	2,588
Investment income, net	771,318	358,933
Realized and unrealized (loss) gain on investments, net	(1,765,820)	1,416,113
Change in value of split-interest agreements and assets held in trust	(237,024)	282,183
Net assets released from restrictions	(1,001,395)	(1,440,165)
Change in net assets with donor restrictions	<u>(1,670,432)</u>	<u>1,033,037</u>
Change in net assets	(4,797,713)	4,637,730
Net assets, beginning	<u>52,506,846</u>	<u>47,869,116</u>
Net assets, end	<u>\$ 47,709,133</u>	<u>\$ 52,506,846</u>

See Notes to Financial Statements.

New Britain Museum of American Art, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2022**

	Program services					Supporting services		
	Collections and exhibitions	Education	Membership and visitor services	Auxiliary activities	Total program services expenses	Management and general	Fundraising	Total
Operating expenses								
Salaries and benefits	\$ 648,812	\$ 292,587	\$ 302,605	\$ 167,689	\$ 1,411,693	\$ 328,604	\$ 204,021	\$ 1,944,318
Professional fees and services	166,668	79,146	49,270	24,502	319,586	157,651	14,237	491,474
Facility costs	467,626	32,484	12,165	23,390	535,665	51,911	3,709	591,285
Travel, entertainment and meetings	18,339	5,222	21,792	604	45,957	39,196	7,295	92,448
Insurance and technology services	43,329	17	2	14	43,362	9,604	2	52,968
Advertising	156,853	39,283	80	1	196,217	-	20	196,237
Materials, supplies and shipping	220,544	18,915	11,434	2,637	253,530	16,616	13,820	283,966
Cost of goods sold	141	8	507	110,529	111,185	121	1	111,307
Other expenses	1,000	56	82	1,375	2,513	8,321	5	10,839
Total operating expenses	1,723,312	467,718	397,937	330,741	2,919,708	612,024	243,110	3,774,842
Nonoperating expenses								
Depreciation	731,191	61,510	8,663	30,322	831,686	25,991	8,663	866,340
Interest expense	3,348	837	-	-	4,185	-	-	4,185
Total nonoperating expenses	734,539	62,347	8,663	30,322	835,871	25,991	8,663	870,525
Total functional expenses	<u>\$ 2,457,851</u>	<u>\$ 530,065</u>	<u>\$ 406,600</u>	<u>\$ 361,063</u>	<u>\$ 3,755,579</u>	<u>\$ 638,015</u>	<u>\$ 251,773</u>	<u>\$ 4,645,367</u>

See Notes to Financial Statements.

New Britain Museum of American Art, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2021**

	Program services					Supporting services		Total
	Collections and exhibitions	Education	Membership and visitor services	Auxiliary activities	Total program services expenses	Management and general	Fundraising	
Operating expenses								
Salaries and benefits	\$ 647,214	\$ 243,125	\$ 244,339	\$ 107,628	\$ 1,242,306	\$ 315,911	\$ 219,518	\$ 1,777,735
Professional fees and services	116,794	41,646	29,737	17,507	205,684	106,465	41,755	353,904
Facility costs	428,274	31,100	8,426	24,443	492,243	47,356	4,915	544,514
Travel, entertainment and meetings	6,716	1,585	5,311	1,093	14,705	4,712	1,614	21,031
Insurance and technology services	43,945	-	-	-	43,945	9,119	-	53,064
Advertising	153,703	39,217	1,785	246	194,951	434	151	195,536
Materials, supplies and shipping	208,306	24,554	10,568	1,893	245,321	6,987	8,609	260,917
Cost of goods sold	-	27	22	65,779	65,828	-	-	65,828
Other expenses	18	17	3,663	72	3,770	3,435	-	7,205
Total operating expenses	1,604,970	381,271	303,851	218,661	2,508,753	494,419	276,562	3,279,734
Nonoperating expenses								
Depreciation	660,026	55,523	7,820	27,371	750,740	23,461	7,820	782,021
Acquisition of works of art	728,859	-	-	-	728,859	-	-	728,859
Interest expense	6,048	1,512	-	-	7,560	-	-	7,560
Total nonoperating expenses	1,394,933	57,035	7,820	27,371	1,487,159	23,461	7,820	1,518,440
Total functional expenses	<u>\$ 2,999,903</u>	<u>\$ 438,306</u>	<u>\$ 311,671</u>	<u>\$ 246,032</u>	<u>\$ 3,995,912</u>	<u>\$ 517,880</u>	<u>\$ 284,382</u>	<u>\$ 4,798,174</u>

See Notes to Financial Statements.

New Britain Museum of American Art, Inc.

Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (4,797,713)	\$ 4,637,730
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	866,340	782,021
Realized loss (gain) on sale of investments	42,635	(348,766)
Unrealized loss (gain) on investments	5,828,917	(3,856,304)
Contributions restricted for endowment	(40,000)	-
Change in value of beneficial interest in perpetual trusts	237,024	(268,841)
Change in value of assets held in trust	-	(13,342)
Changes in operating assets and liabilities		
Accounts receivable	(3,720)	3,130
Prepaid expenses	(28,193)	11,031
Inventory	(21,809)	(21,639)
Contributions and grants receivable, net	279,630	162,896
Accounts payable and accrued liabilities	(382,997)	415,665
Deferred revenue	3,390	(51,387)
Refundable advance - PPP	-	(331,000)
Liabilities under split-interest agreements	<u>(10,260)</u>	<u>(2,328)</u>
Net cash provided by operating activities	<u>1,973,244</u>	<u>1,118,866</u>
Cash flows from investing activities		
Purchases of investments	(7,033,091)	(14,941,991)
Proceeds from sales of investments	5,759,532	14,500,022
Purchases of property and equipment	<u>(161,787)</u>	<u>(1,216,445)</u>
Net cash used in investing activities	<u>(1,435,346)</u>	<u>(1,658,414)</u>
Cash flows from financing activities		
Draws (payments) on lines of credit, net	(310,699)	350,000
Contributions restricted for endowment	<u>40,000</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(270,699)</u>	<u>350,000</u>
Net increase (decrease) in cash	267,199	(189,548)
Cash, beginning	<u>612,418</u>	<u>801,966</u>
Cash, end	<u><u>\$ 879,617</u></u>	<u><u>\$ 612,418</u></u>
Interest paid	<u><u>\$ 4,185</u></u>	<u><u>\$ 7,560</u></u>

See Notes to Financial Statements.

New Britain Museum of American Art, Inc.

Notes to Financial Statements June 30, 2022 and 2021

Note 1 - Organization and summary of significant accounting policies

Business activity

The New Britain Museum of American Art, Inc. (the "Museum") is a not-for-profit entity that operates and maintains a museum in New Britain, Connecticut. The mission of the Museum is to acquire, house, exhibit, interpret, research, and conserve works in all artistic media by artists who are American citizens, or have produced a significant body of work while living in the United States, or contribute to illuminating the evolving story of the United States of America and the notion of what is "American".

With roots dating from 1853, the Museum is considered the oldest museum in the country dedicated solely to acquiring American art. Spanning four centuries of American history, the Museum's permanent collection, numbering over 8,000 works, is renowned for its strengths in colonial portraiture, the Hudson River School, American Impressionism, the Ash Can School, as well as the important mural series *The Arts of Life in America* by Thomas Hart Benton. The singular focus on American art and its panoramic view of American artistic achievement, realized through the Museum's extensive permanent collection, exhibitions, and educational programming, make the New Britain Museum of American Art a significant resource for a broad and diverse public. The Museum is supported by members and visitors, including students, who experienced the permanent collection, special exhibitions and associated educational programs.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Museum reports information regarding its financial position and activities according to the following net asset categories:

Net assets without donor restrictions - Net assets that are not subject to explicit donor-imposed stipulations represent available resources. Included in net assets without donor restrictions are funds that may be earmarked by the Board of Trustees for specific purposes.

Net assets with donor restrictions - Net assets that are subject to donor-imposed stipulations which 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.

Cash and cash equivalents

For purposes of the statements of cash flows, the Museum considers all highly-liquid investments purchased with an original maturity of three months or less when acquired to be cash equivalents. Cash equivalents are stated at cost, which approximates market value. There were no cash equivalents as of June 30, 2022 and 2021.

Accounts receivable

The Museum regularly monitors receivables arising from regular operations to determine if an allowance for doubtful accounts is deemed necessary. Management considers past history, current economic conditions and overall financial strength of the third party when determining the need for an allowance. Receivables are written off only when management believes amounts will not be collected. Receivables are considered past due based on the invoice or pledge date. No allowance is required as of June 30, 2022 and 2021 for accounts receivable.

New Britain Museum of American Art, Inc.

Notes to Financial Statements June 30, 2022 and 2021

Revenue recognition

Grants

Revenue from grants with resource providers such as the government and its agencies, other organizations and private foundations are accounted for either as exchange transactions or as contributions. When the resource provider receives commensurate value in return for the resources transferred to the Museum, the revenue from the grant is accounted for as an exchange transaction. For purposes of determining whether a transfer of asset is a contribution or an exchange, the Museum deems that the resource provider is not synonymous with the general public, i.e., indirect benefit received by the public as a result of the assets transferred is not deemed equivalent to commensurate value received by the resource provider. Moreover, the execution of a resource provider's mission or the positive sentiment from acting as a donor is not deemed to constitute commensurate value received by a resource provider. Revenue from grants that are accounted for as exchange transactions is recognized when performance obligations have been satisfied. Grants awarded for the acquisition of long-lived assets are reported as nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

On the other hand, when the resource provider does not receive commensurate value, the transaction is accounted for as a contribution.

Contributions

Transactions where the resource provider often receives value indirectly by providing a societal benefit, although the societal benefit is not considered to be of commensurate value, are deemed to be contributions. Contributions are classified as either conditional or unconditional. A conditional contribution is a transaction where the Museum has to overcome a barrier or hurdle to be entitled to the resource and the resource provider is released from the obligation to fund or has the right of return of any advanced funding if the Museum fails to overcome the barrier. The Museum recognizes the contribution revenue upon overcoming the barrier or hurdle. Any funding received prior to overcoming the barrier is recognized as a refundable advance.

Unconditional contributions are recognized as revenue and receivable when the commitment to contribute is received.

Conditional and unconditional contributions are recorded as either with donor restriction or without donor restriction. Contributions are recognized as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as contributions without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the statements of activities as net assets released from restriction. Donor-restricted contributions whose conditions and restrictions expire during the same fiscal year are recognized as contributions without donor restrictions.

Contributions to be received over future periods are presented at the present value of estimated future cash flows using a discount rate of 1.25% for 2022 and 2021. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

Contributions receivable also include receivables related to split-interest agreements with donors. For irrevocable charitable lead annuity trusts, the contribution is recorded at the estimated present value of the assets expected to be received by the Museum. For irrevocable charitable remainder

New Britain Museum of American Art, Inc.

**Notes to Financial Statements
June 30, 2022 and 2021**

annuity trusts and gift annuities, the contribution is recorded at the fair value of the assets, less the present value of the payments to be made to the beneficiary, computed using actuarial tables. Gift annuities payable are calculated using a risk adjusted discount rate in effect at the date of the gift and the present value of the future payments to be made to the annuitants, computed using actuarial tables. Gift annuities are reported as a liability in the statements of financial position.

Admission and program fees

Admission and program fees consist of admission and educational program fees to the Museum, facility rental fees and fees related to collection items. Revenue is recognized when the services are provided. Admissions are accounted for upon purchase (point in time) and payment of the ticket which allows admission into the Museum. Fees received in advance are deferred until the service is provided.

The opening and ending balances of customer contract related amounts were as follows as of June 30, 2022, 2021 and 2020:

	2022	2021	2020
Accounts receivable	\$ 6,824	\$ 3,104	\$ 6,234
Deferred revenue	61,169	57,779	109,166

Donated property and equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as donor restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Museum reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Split-interest agreements

The Museum has several gift annuities. Assets are invested, and payments are made to donors and/or other beneficiaries in accordance with respective agreements. The net present value of payments to beneficiaries under these arrangements is calculated using discount rates ranging from 3.8% to 7.4%. Gains and losses resulting from changes in current values and in actuarial assumptions are recorded as change in value of split-interest agreements in the statements of activities.

The Museum is a beneficiary in a charitable lead annuity trust ("CLAT") for which the Museum is not the trustee. The Museum's interest in the trust is recorded at the estimated present value of the expected future payments using a discount rate of 3.2%. The fair value of the CLAT as of June 30, 2022 and 2021 was \$161,216 and \$232,643, respectively, and is included in contributions and grants receivable on the statements of financial position.

Inventory

Inventory, which consists primarily of merchandise held for resale, is stated at the lower of cost or fair value. Cost is determined by the first-in, first-out ("FIFO") method.

New Britain Museum of American Art, Inc.

Notes to Financial Statements June 30, 2022 and 2021

Collection

In keeping with standard museum practice, the Museum's collection has not been capitalized or reported in the statements of financial position. Each of the items is cataloged, preserved and cared for. Costs of purchasing art are recognized as an expense in the year of acquisition. Proceeds from sales and insurance recoveries are recognized as donor-restricted or board-designated revenue for the purchase of art or for the direct care of existing collections. The Museum defines direct care as the maintenance of current collections, including any activity that involves the protection and preservation of the collection.

Investments

The Museum reports investments at their current fair values and reflects any gains or losses, including unrealized amounts, in the statements of activities. Gains and losses are considered without donor restrictions unless restricted by donor stipulation or law. Nonmonetary investments received as gifts are immediately sold and recorded at the realized value.

Endowment and spending policy

The Museum has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity and board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. It is recognized that short-term market fluctuations may cause variations in investment performance.

Endowment assets are invested consistent with a total return strategy to preserve and increase the purchasing power of the portfolio over a long-term investment horizon while maintaining an appropriate balance between the need for current income and growth of principal. The Museum targets a diversified asset allocation within the following ranges: equities 40-70%, fixed income 30-60%, and alternative investments 0-15%.

In determining appropriations, the Board of Trustees approves an annual budget reflecting the annual draw from the endowment. Generally, the budget reflects an appropriation of approximately 5% of the average fair value of the endowment over a three-year rolling average. The Board of Trustees may approve additional support from the endowment for special programs and to sustain the operations. Amounts drawn from the endowment and appropriated in support of the Museum's operations and special programs are presented as investment income in the operating revenues in the statements of activities. The Museum has a policy that permits spending from underwater funds depending upon the degree to which the fund is underwater, unless specifically prohibited by the donor or relevant laws and regulations.

Advertising

Advertising costs are expensed as incurred and amounted to \$196,237 and \$195,536 for the years ended June 30, 2022 and 2021, respectively.

New Britain Museum of American Art, Inc.

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Land, property and equipment

The Museum capitalizes all expenditures for property and equipment in excess of \$5,000 and having a useful life of greater than one year. Purchases are recorded at cost. Donated building and equipment are recorded at the approximate fair value at the date of donation. The Museum reports gifts of land, buildings and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Museum reports expirations of donor restrictions of acquired long-lived assets when placed in service.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated lives for financial reporting purposes are as follows:

<u>Asset</u>	<u>Estimated lives</u>
Buildings	40 years
Furniture and equipment	3 - 15 years
Land improvements	20 years

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the statements of activities.

Impairment of long-lived assets

The Museum reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Museum compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset carrying values and fair values. Fair value may be based on the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. The Museum does not believe that any impairment occurred related to its long-lived assets.

Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs are segregated between costs directly related to and charged directly to programs and costs that are allocated across functions as they are not directly related to only one function. Direct costs include salary and benefits, professional fees, advertising, costs of goods sold, and travel, entertainment and meetings. Facility costs are a collection of costs that relate to all activities and are allocated based on the programs and supporting services use of the facilities.

Income taxes

The Museum is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c)(3). However, certain operations of the Museum may qualify as unrelated business activities and to the extent that these activities generate income after expenses, such income will be subject to federal and state taxes. No tax was incurred for the years ended June 30, 2022 and 2021.

New Britain Museum of American Art, Inc.

**Notes to Financial Statements
June 30, 2022 and 2021**

The Museum has no unrecognized tax benefits at June 30, 2022 and 2021. The Museum's federal and state information returns prior to fiscal year 2019 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If the Museum has unrelated business income taxes, it would recognize interest and penalties associated with any tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the statements of financial position.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events

The Museum has evaluated events and transactions for potential recognition or disclosure through October 25, 2022, which is the date the financial statements were available to be issued.

Note 2 - Liquidity

The Museum regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of June 30, 2022 and 2021, the Museum has the following financial assets available to meet annual operating needs for the subsequent fiscal years:

	<u>2022</u>	<u>2021</u>
Financial assets		
Cash	\$ 879,617	\$ 612,418
Accounts receivable	6,824	3,104
Contributions and grants receivable, net	584,289	863,919
Investments	<u>22,987,018</u>	<u>27,585,011</u>
Total financial assets	<u>24,457,748</u>	<u>29,064,452</u>
Adjustments		
Donor-imposed time and purpose restrictions	(4,828,803)	(6,302,211)
Board-designated endowment	(14,271,420)	(17,587,081)
Endowment funds to be held in perpetuity	(4,332,593)	(4,292,593)
Board-approved endowment draw for following year	<u>1,094,800</u>	<u>1,020,000</u>
Amounts available for following fiscal year	<u>\$ 2,119,732</u>	<u>\$ 1,902,567</u>

These financial assets are not subject to any donor or contractual restrictions. In addition to program service revenues, the Museum supports its general operations primarily with donor contributions without restrictions and donor-restricted funds whose time or purpose restriction has been met. Included above is the Board-appropriated portion of the earnings from the Museum's donor-restricted endowment as described in Note 10 to assist in meeting general operations obligations.

New Britain Museum of American Art, Inc.

**Notes to Financial Statements
June 30, 2022 and 2021**

The Museum's Investment Policy Statement requires the investment portfolio to maintain liquid instruments within its portfolio to ensure assets are available to meet general expenditures, liabilities and other obligations as they come due. The Museum's Investment Committee meets regularly to review investment performance and consider near-term liquidity needs.

In addition to financial assets available to meet general expenditures within one year, amounts reported as board-designated could be made available, as needed, by Board action. The Museum also has lines of credit available to be drawn upon, if necessary, as described in Note 14.

Note 3 - Concentrations and other risks and uncertainties

Concentrations of credit risk with respect to grants receivable are limited to contractual agreements with various state organizations. Contributions receivable are limited to pledges from various foundations, businesses and individuals. Concentrations of credit risk with respect to accounts receivable consist of amounts due for program fees and other services.

The Museum maintains its cash with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits.

The Museum invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the nature of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of financial position. Management is of the opinion that the diversification of its invested assets among various asset classes should mitigate the impact of changes in any one class.

Note 4 - Investments

Investments are carried at their fair value. The following summarizes the fair values for investments as presented in the financial statements as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Equity mutual funds	\$ 14,286,910	\$ 17,899,452
Fixed income mutual funds	6,855,780	8,233,633
Alternative investments	1,729,533	1,380,000
Money markets	<u>114,795</u>	<u>71,926</u>
Total	<u>\$ 22,987,018</u>	<u>\$ 27,585,011</u>

New Britain Museum of American Art, Inc.

**Notes to Financial Statements
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Investment return is comprised of the following:

	2022	2021
Interest and dividends	\$ 2,762,417	\$ 1,113,573
Investment management fees	(127,257)	(90,727)
Realized (loss) gain	(42,635)	348,766
Unrealized (loss) gain	(5,828,917)	3,856,304
	<u>\$ (3,236,392)</u>	<u>\$ 5,227,916</u>

Investment returns are classified in the statements of activities based on the purpose of the fund. Investment returns on donor-restricted funds are classified as donor-restricted to time or purpose until the restriction criterion is met. Investment income included in operating revenues reflects interest and dividends earned on investments without donor restrictions.

Note 5 - Fair value measurements

The Museum values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. In determining fair value, the Museum utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. There have been no changes in the methodologies used during 2022 and 2021.

Investments in money markets and equity and fixed income mutual funds are traded on an active market and are valued at the closing price on the valuation date ("Level 1"). Mutual funds held by the Museum are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Museum are deemed to be actively traded.

The Museum's interest in the assets held in trust by others ("Level 2") are stated at fair value based on the estimated present value of the expected future payments using a discount rate of 3.2%.

New Britain Museum of American Art, Inc.

**Notes to Financial Statements
June 30, 2022 and 2021**

The Museum's beneficial interest in perpetual trusts (held by others) ("Level 3") are stated at fair value based on the values of the underlying investments in the trusts, which are established by the trustees using market values for identical assets in an active market or quoted prices for similar assets. The Museum presents as Level 3 because it receives periodic payments from the trust based on the present value of expected cash flows to be received from the trusts. The trustees provide the Museum with investment statements and valuations of its portion of the trusts at year-end. These are evaluated annually by the Museum.

For alternative investments measured at net asset value ("NAV") as a practical expedient, the Museum invests in select real estate limited partnership vehicles that utilize multiple strategies to diversify risks and reduce volatility. While the holdings within these investments may include a variety of assets, including financial instruments and commodities, some of which may be readily priced in active trading markets, the aggregate combination of these assets is represented by ownership interests in these funds. The fair value of these investments have been determined by utilizing the net asset value of the Museum's share of the aggregate investments in each fund as provided by the fund.

Liabilities under split-interest agreements are valued based on the net present value of payments due the beneficiaries based upon their estimated life span. The fair value of liabilities under split-interest agreements was obtained from a third party without adjustments. As such, the Museum is not required to provide certain quantitative disclosures regarding the valuation methods used because they were unobtainable.

The preceding methods may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Financial assets and liabilities carried at fair value as of June 30, 2022 are classified in the table below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity				
Domestic	\$ 9,597,021	\$ -	\$ -	\$ 9,597,021
International	4,689,889	-	-	4,689,889
Fixed income	6,855,780	-	-	6,855,780
Money markets	114,795	-	-	114,795
Assets held in trust by others	-	161,216	-	161,216
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>1,151,869</u>	<u>1,151,869</u>
Alternative investments - measured at net asset value				<u>1,729,533</u>
Total	<u>\$ 21,257,485</u>	<u>\$ 161,216</u>	<u>\$ 1,151,869</u>	<u>\$ 24,300,103</u>
Liabilities under split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,113</u>	<u>\$ 29,113</u>

New Britain Museum of American Art, Inc.

**Notes to Financial Statements
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Financial assets and liabilities carried at fair value as of June 30, 2021 are classified in the table below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity				
Domestic	\$ 11,869,319	\$ -	\$ -	\$ 11,869,319
International	6,030,133	-	-	6,030,133
Fixed income	8,233,633	-	-	8,233,633
Money markets	71,926	-	-	71,926
Assets held in trust by others	-	232,643	-	232,643
Beneficial interest in perpetual trusts	-	-	1,388,893	1,388,893
Alternative investments - measured at net asset value				<u>1,380,000</u>
 Total	<u>\$ 26,205,011</u>	<u>\$ 232,643</u>	<u>\$ 1,388,893</u>	<u>\$ 29,206,547</u>
 Liabilities under split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,373</u>	<u>\$ 39,373</u>

Fair value of investments in entities that use NAV

The following table summarizes investments for which fair value is measured using NAV per share as a practical expedient as of June 30, 2022:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Alternative investments				
SEI Core Property Fund	\$ 1,729,533	\$ -	Quarterly	95 days

The following table summarizes investments for which fair value is measured using NAV per share as a practical expedient as of June 30, 2021:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Alternative investments				
SEI Core Property Fund	\$ 1,380,000	\$ -	Quarterly	95 days

Note 6 - Beneficial interest in perpetual trusts

The Museum is the beneficiary in two perpetual trusts that are administered by third-party trustees. The assets of the trusts are included in the statements of financial position based upon the fair value of the underlying assets of the trusts and the Museum's beneficial interest percentage. The income distributed from the trusts for the years ended June 30, 2022 and 2021 was \$58,998 and \$52,713, respectively.

New Britain Museum of American Art, Inc.

**Notes to Financial Statements
June 30, 2022 and 2021**

Note 7 - Land, property and equipment

Land, property and equipment consist of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 1,499,335	\$ 1,499,335
Furniture and equipment	1,841,246	1,933,358
Building	28,907,462	28,874,150
Construction in progress	<u>40,763</u>	<u>7,254</u>
	32,288,806	32,314,097
Accumulated depreciation	<u>(9,977,826)</u>	<u>(9,298,564)</u>
	<u><u>\$ 22,310,980</u></u>	<u><u>\$ 23,015,533</u></u>

Depreciation expense on property and equipment was \$866,340 and \$782,021 for the years ended June 30, 2022 and 2021, respectively.

Note 8 - Contributions and grants receivable

Contributions and grants receivable as of June 30, 2022 and 2021 are comprised of the following:

	<u>2022</u>	<u>2021</u>
Pledges receivable	\$ 82,294	\$ 57,034
Grant receivable	341,482	574,945
Assets held in trust by others	161,216	232,643
Pledge discount	<u>(703)</u>	<u>(703)</u>
	<u><u>\$ 584,289</u></u>	<u><u>\$ 863,919</u></u>
Contributions and grants receivable consist of receivables due in		
Less than one year	\$ 472,217	\$ 696,623
One to five years	<u>112,775</u>	<u>167,999</u>
	584,992	864,622
Less allowance	-	-
Less pledge discount	<u>(703)</u>	<u>(703)</u>
	<u><u>\$ 584,289</u></u>	<u><u>\$ 863,919</u></u>

New Britain Museum of American Art, Inc.

**Notes to Financial Statements
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Note 9 - Net assets

Net assets with donor restrictions to be held in perpetuity are available for the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Endowment		
Operations	\$ 1,684,024	\$ 1,659,024
Collections	2,537,683	2,522,683
Education	<u>110,886</u>	<u>110,886</u>
	4,332,593	4,292,593
Beneficial interest in perpetual trusts	<u>1,151,869</u>	<u>1,388,893</u>
	<u><u>\$ 5,484,462</u></u>	<u><u>\$ 5,681,486</u></u>

Net assets with donor restrictions to time or purpose are available for the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Endowment		
Operations	\$ 1,084,834	\$ 1,534,664
Collections	3,278,605	4,137,915
Education	<u>9,752</u>	<u>11,861</u>
	4,373,191	5,684,440
Time restrictions	372,317	367,592
Purpose restrictions	<u>83,295</u>	<u>250,179</u>
	<u><u>\$ 4,828,803</u></u>	<u><u>\$ 6,302,211</u></u>

Board-designated net assets are available for the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Operations	\$ 12,354,719	\$ 15,288,927
Collections	<u>1,916,701</u>	<u>2,298,154</u>
	<u><u>\$ 14,271,420</u></u>	<u><u>\$ 17,587,081</u></u>

New Britain Museum of American Art, Inc.

**Notes to Financial Statements
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Note 10 - Endowment

The Museum's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Trustees has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act ("CTUPMIFA") 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 of this interpretation, the Museum classifies as net assets restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as net assets restricted for time or purpose until those amounts are appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by CTUPMIFA.

In accordance with CTUPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Museum and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Museum.
7. The investment policies of the Museum.

New Britain Museum of American Art, Inc.

**Notes to Financial Statements
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Endowment net asset composition by type of fund is as follows:

<u>June 30, 2022</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 8,705,784	\$ 8,705,784
Board-designated endowment funds	14,271,420	-	14,271,420
Total funds	<u>\$ 14,271,420</u>	<u>\$ 8,705,784</u>	<u>\$ 22,977,204</u>

<u>June 30, 2021</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 9,977,033	\$ 9,977,033
Board-designated endowment funds	17,587,081	-	17,587,081
Total funds	<u>\$ 17,587,081</u>	<u>\$ 9,977,033</u>	<u>\$ 27,564,114</u>

Changes in endowment net assets are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, July 1, 2020	\$ 14,459,825	\$ 8,452,533	\$ 22,912,358
Investment income, net	642,005	327,851	969,856
Contributions/other revenue	676,031	106,950	782,981
Net realized and unrealized gains	2,805,863	1,411,360	4,217,223
Amounts appropriated for expenditures	(996,643)	(321,661)	(1,318,304)
Endowment net assets, June 30, 2021	17,587,081	9,977,033	27,564,114
Investment income, net	1,804,904	770,080	2,574,984
Contributions/other revenue	11,111	251,025	262,136
Net realized and unrealized losses	(4,108,560)	(1,760,857)	(5,869,417)
Amounts appropriated for expenditures	(1,023,116)	(531,497)	(1,554,613)
Endowment net assets, June 30, 2022	<u>\$ 14,271,420</u>	<u>\$ 8,705,784</u>	<u>\$ 22,977,204</u>

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or CTUPMIFA requires the Museum to retain as a fund of perpetual duration. Deficiencies of this nature exist in 9 donor-restricted endowment funds, which together have an original gift value of \$1,388,935, a current fair value of \$1,342,464, and a deficiency of \$46,471 as of June 30, 2022. These deficiencies resulted from unfavorable market fluctuations that occurred during 2022. As of June 30, 2021, there were no funds for which the value was less than the original value when the gift was made.

New Britain Museum of American Art, Inc.

**Notes to Financial Statements
June 30, 2022 and 2021**

Note 11 - Retirement plan

The Museum has adopted a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. Under the plan, the Museum contributes 3% of gross salary for employees who meet the eligibility requirements. The Museum also matches the first 2% of all contributions made by eligible plan participants. The cost recognized for this plan for the years ended June 30, 2022 and 2021 was \$57,547 and \$62,212, respectively.

Note 12 - Lease commitments

Operating lease

The Museum leases office equipment with expirations through 2026. Total lease expense for the years ended June 30, 2022 and 2021 was \$13,163 and \$6,483, respectively. Future minimum lease payments as of June 30, 2022 are as follows:

2023	\$	10,895
2024		10,895
2025		4,816
2026		3,290
		<hr/>
	\$	29,896
		<hr/>

Note 13 - Commitments and contingencies

The Museum has entered into an Assistance Agreement ("Agreement") with the State of Connecticut Department of Economic and Community Development ("DECD") which provides for an Urban Act Grant ("UAG") in support of the expansion of the Museum. The Agreement prohibits the Museum from relocating outside the State of Connecticut for 10 years or the Museum is subject to the repayment of the bond funds used as source of funds for the UAG plus a one-time interest charge of 7.5% of the total amount of assistance received. In addition, the Agreement provides for certain provisions to be met if relocating within the State of Connecticut. Mortgages on the land and building are held as collateral for the Agreement.

	<u>Not to exceed</u>	<u>Lien expiration</u>
Bond	\$4 million	September 2025

In early 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity. Through the date that this report was issued, there has not been a significant impact to the Museum's operations. The Museum is not able to reliably estimate the length or severity of the outbreak. If the length of the outbreak and related effects on the Museum's operations continues for an extended period of time, there could be a loss of revenue and other adverse effects to the Museum's financial position, results of operations, and cash flows.

Note 14 - Lines of credit

The Museum arranged a line of credit with a bank to temporarily finance, as needed, the construction of the art and education wing. The line allows borrowings up to \$1 million. The interest rate is variable at the bank's prime rate less 1% (4.50% at June 30, 2022). The line of credit matures in January 2024. All

New Britain Museum of American Art, Inc.

**Notes to Financial Statements
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tangible and intangible assets of the Museum are pledged as collateral, and the Museum is required to maintain certain financial ratios. The outstanding balance as of June 30, 2022 and 2021 was \$0 and \$460,708, respectively.

The Museum arranged a commercial demand note with a bank on June 15, 2016 for \$200,000 to temporarily finance, as needed, the operations of the Museum. The interest rate is variable at the bank's prime rate less 1% (4.50% at June 30, 2022). The commercial demand note matures on January 2024. The Museum has pledged a portion of its investments as collateral, and the Museum is required to maintain certain financial ratios. The outstanding balance as of June 30, 2022 and 2021 was \$150,009 and \$0, respectively.

Note 15 - PPP loan

In April 2020, the Museum received a loan in the amount of \$331,000 through the Small Business Administration's ("SBA") Paycheck Protection Program to cover payroll and utility costs. This amount was accounted for as a conditional contribution upon receipt. The loan bore interest at 1% and was to be paid in 18 monthly installments. However, per the loan agreement, the loan was forgiven by the SBA in June 2021 as the funds were used to cover eligible payroll and utility costs. The forgiven amount has been recognized in the statements of activities as a contribution during the year ended June 30, 2021.



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