

# **The Newark Museum Association**

Financial Statements

December 31, 2015 and 2014

## Independent Auditors' Report

### **Board of Trustees The Newark Museum Association**

We have audited the accompanying financial statements of The Newark Museum Association (the "Museum") which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Board of Trustees**  
**The Newark Museum Association**  
Page 2

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Newark Museum Association as of December 31, 2015 and 2014, 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.

*PKF O'Connor Davies, LLP*

March 24, 2016

## The Newark Museum Association

### Statements of Financial Position

	December 31	
	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,808,767	\$ 8,420,851
Grants receivable	565,105	1,116,856
Contributions receivable, net	273,553	410,576
Prepaid expenses and other assets	539,323	623,909
Investments	49,138,674	52,070,767
Property and equipment, net	12,119,279	13,576,780
	<u>\$ 70,444,701</u>	<u>\$ 76,219,739</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 1,114,207	\$ 1,369,481
Refundable advances	228,454	209,454
Total Liabilities	<u>1,342,661</u>	<u>1,578,935</u>
Net Assets		
Unrestricted	50,151,623	54,382,105
Temporarily restricted	4,925,044	6,740,714
Permanently restricted	14,025,373	13,517,985
Total Net Assets	<u>69,102,040</u>	<u>74,640,804</u>
	<u>\$ 70,444,701</u>	<u>\$ 76,219,739</u>

See notes to financial statements

## The Newark Museum Association

### Statement of Activities Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING ACTIVITIES</b>				
Operating Revenues, Gains, and Other Support				
Governmental grants and appropriations	\$ 5,308,718	\$ -	\$ 8,692	\$ 5,317,410
Contributions and pledges	1,692,711	608,126	498,696	2,799,533
Membership	722,781	-	-	722,781
Educational	425,155	-	-	425,155
Investment income, net of fees	(117,628)	(56,323)	-	(173,951)
Other revenue	549,838	-	-	549,838
Net assets released from restriction	<u>2,367,473</u>	<u>(2,367,473)</u>	<u>-</u>	<u>-</u>
Total Operating Revenues, Gains, and Other Support	<u>10,949,048</u>	<u>(1,815,670)</u>	<u>507,388</u>	<u>9,640,766</u>
Operating Expenses				
Salaries	5,900,231	-	-	5,900,231
Employee benefits and payroll taxes	2,160,902	-	-	2,160,902
Building operations	619,070	-	-	619,070
Electric, gas, and water	788,988	-	-	788,988
Display and programs	378,726	-	-	378,726
Other general and administrative	2,435,526	-	-	2,435,526
Depreciation	<u>1,659,468</u>	<u>-</u>	<u>-</u>	<u>1,659,468</u>
Total Operating Expenses	<u>13,942,911</u>	<u>-</u>	<u>-</u>	<u>13,942,911</u>
Change in Net Assets from Operations	<u>(2,993,863)</u>	<u>(1,815,670)</u>	<u>507,388</u>	<u>(4,302,145)</u>
<b>NON-OPERATING ACTIVITIES</b>				
Sale of collection items	447,770	-	-	447,770
Collections purchased	<u>(1,684,389)</u>	<u>-</u>	<u>-</u>	<u>(1,684,389)</u>
Total Non-Operating Activities	<u>(1,236,619)</u>	<u>-</u>	<u>-</u>	<u>(1,236,619)</u>
Change in Net Assets	<u>(4,230,482)</u>	<u>(1,815,670)</u>	<u>507,388</u>	<u>(5,538,764)</u>
<b>NET ASSETS</b>				
Beginning of year	<u>54,382,105</u>	<u>6,740,714</u>	<u>13,517,985</u>	<u>74,640,804</u>
End of year	<u>\$ 50,151,623</u>	<u>\$ 4,925,044</u>	<u>\$ 14,025,373</u>	<u>\$ 69,102,040</u>

See notes to financial statements

## The Newark Museum Association

### Statement of Activities Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING ACTIVITIES</b>				
Operating Revenues, Gains, and Other Support				
Governmental grants and appropriations	\$ 6,781,781	\$ -	\$ 58,333	\$ 6,840,114
Contributions and pledges	2,090,295	910,124	-	3,000,419
Membership	699,297	-	-	699,297
Educational	441,217	-	-	441,217
Investment income, net of fees	2,847,517	1,434,637	-	4,282,154
Other revenue	745,218	-	-	745,218
Net assets released from restriction	<u>2,290,344</u>	<u>(2,290,344)</u>	<u>-</u>	<u>-</u>
Total Operating Revenues, Gains, and Other Support	<u>15,895,669</u>	<u>54,417</u>	<u>58,333</u>	<u>16,008,419</u>
 Operating Expenses				
Salaries	5,601,072	-	-	5,601,072
Employee benefits and payroll taxes	1,957,889	-	-	1,957,889
Building operations	517,951	-	-	517,951
Electric, gas, and water	806,620	-	-	806,620
Display and programs	544,325	-	-	544,325
Other general and administrative	2,498,090	-	-	2,498,090
Depreciation	<u>1,744,796</u>	<u>-</u>	<u>-</u>	<u>1,744,796</u>
Total Operating Expenses	<u>13,670,743</u>	<u>-</u>	<u>-</u>	<u>13,670,743</u>
Change in Net Assets from Operations	<u>2,224,926</u>	<u>54,417</u>	<u>58,333</u>	<u>2,337,676</u>
 <b>NON-OPERATING ACTIVITIES</b>				
Collections purchased	(762,495)	-	-	(762,495)
Interfund transfers	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>
Total Non-Operating Activities	<u>(662,495)</u>	<u>-</u>	<u>(100,000)</u>	<u>(762,495)</u>
Change in Net Assets	1,562,431	54,417	(41,667)	1,575,181
 <b>NET ASSETS</b>				
Beginning of year	<u>52,819,674</u>	<u>6,686,297</u>	<u>13,559,652</u>	<u>73,065,623</u>
End of year	<u>\$ 54,382,105</u>	<u>\$ 6,740,714</u>	<u>\$ 13,517,985</u>	<u>\$ 74,640,804</u>

See notes to financial statements

## The Newark Museum Association

### Statements of Cash Flows

	Years Ended December 31	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (5,538,764)	\$ 1,575,181
Adjustments to reconcile change in net assets to net cash from operating activities		
Permanently restricted gifts	(507,388)	(58,333)
Depreciation	1,659,468	1,744,796
Bad debt expense	22,010	52,917
Present value discount on contributions receivable	(8,629)	(6,552)
Realized and unrealized loss (gain) on investments	227,101	(4,098,258)
Purchases and sales of collections, net	1,236,619	762,495
Changes in operating assets and liabilities		
Grants receivable	551,751	47,135
Contributions receivable	123,642	232,504
Prepaid expenses and other assets	84,586	(22,375)
Accounts payable and accrued expenses	(255,274)	1,056,338
Refundable advances	19,000	83,000
Net Cash from Operating Activities	(2,385,878)	1,368,848
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(201,967)	(1,050,934)
Purchase of investments	(16,613,605)	(17,173,311)
Proceeds from sale of investments	19,318,597	18,418,424
Purchase of collections	(1,684,389)	(762,495)
Proceeds from sale of collections	447,770	-
Net Cash from Investing Activities	1,266,406	(568,316)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted gifts received	507,388	58,333
Net Change in Cash and Cash Equivalents	(612,084)	858,865
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	8,420,851	7,561,986
End of year	\$ 7,808,767	\$ 8,420,851

See notes to financial statements

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 1. The Museum

Founded in 1909, The Newark Museum Association (the "Museum"), the largest museum in the State of New Jersey and one of the most influential museums in the United States, holds diverse collections and presents programs encompassing art, science, technology and history. The Museum promotes engagement and learning for individuals in Newark, the State of New Jersey and beyond.

Guided by its mission, the Museum operates, as it has since its founding, in the public trust as a museum of service, and a leader in connecting objects and ideas to the needs and wishes of its constituencies. The Museum believes that its art and science collections have the power to educate, inspire and transform individuals of all ages, and the local, regional, national and international communities that it serves. In the words of visionary founding director, John Cotton Dana, "A good museum attracts, entertains, arouses curiosity, leads to questioning – and thus promotes learning."

This commitment requires that the Museum not only maintain an unparalleled collection of art and artifacts, but that it supplement its collections-based programs with noteworthy traveling exhibitions to build bridges between disciplines, to provide multiple points of view, to excite and engage the community, and to improve and update science, technology, and art exhibitions that keep pace with changing opportunities, expectations, and innovations. In addition, the Museum regularly rotates its distinguished collections in exciting and relevant ways.

The Museum's collections are recognized globally as among the deepest and greatest. They are presented in eighty galleries housed on a seven-acre campus in the center of one of America's oldest cities. The campus encompasses the Ballantine House, which is a National Historic Landmark, the Dreyfuss Memorial Garden, the Newark Fire Museum, the 1784 Lyons Farms Schoolhouse, and Horizon Plaza, a welcoming streetscape/plaza/garden. This extended campus provides alternative presentation/demonstration space for the Museum's many community and family events.

The Museum supports programs at the nexus of art and science, currently embracing the global Maker Movement, in which the Museum is a national leader. With this, the Museum recognizes the multiple facets of human creativity, and uses its unique position to develop STEAM education programs (science, technology, engineering, art and math). The Museum devotes a substantial portion of its facilities to youth, family, and school programs and ensures that its educational resources, collections, and facilities are readily accessible to a broad audience representing diverse interests, ages, and backgrounds. Nearly two out of three members of the Museum's annual audience are engaged by an educational program.

The Museum has consistently been cited for excellence in exhibition and education initiatives by government authorities and agencies, national funding sources, and professional associations. Most recently, the Museum received re-accreditation by the American Association of Museums (AAM) in 2008.



## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 1. The Museum (*continued*)

The Museum qualifies as a charitable organization as defined by Internal Revenue Code (IRC) Section 501(c)(3). Accordingly, it is exempt from Federal income tax under IRC Section 501(a). Additionally, since the Museum is publicly supported, the contributions to the Museum qualify for the maximum charitable contribution deduction under the IRC. The Museum is also exempt from state and local taxes.

While funding for a significant portion of operating activities has historically relied upon government sources—the City of Newark and State of New Jersey (See Note 14). The Museum continues to build greater support through a diversified funding base of individuals, businesses and corporations, and foundations. The Board of Trustees of the Museum, as it has since its founding, is working to continue to assure that resources are available to carry out the mission of the Museum.

### 2. Summary of Significant Accounting Policies

#### ***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The Museum considers all liquid investments purchased with a remaining maturity of three months or less to be cash equivalents, with the exception of those money market funds which are included in investments.

#### ***Fair Value Measurements***

The Museum follows US GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

During 2015, the Museum adopted new US GAAP guidance which removed the requirements to categorize within the fair value hierarchy alternative investments where fair value is measured using the Net Asset Value (“NAV”) per share as a practical expedient. Adoption of this guidance was applied retrospectively and had no effect on the carrying value of such investments.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Fair Value Measurements (continued)***

Pursuant to US GAAP guidance, alternative investments where fair value is measured using the Net Asset Value ("NAV") per share as a practical expedient is not categorized within the fair value hierarchy.

#### ***Investments and Investment Income***

Investments in equity and fixed-income securities are carried at fair value, which is based on published unit values or quoted market prices. Investments in cash equivalents, consisting of money market funds, are carried at cost, which approximates fair value. Alternative investments, consisting primarily of equity in a limited partnership, are carried at fair value based on the NAV per share of the class of the Museum's investment in the partnership, as determined by the partnership's investment manager. The Museum evaluates these valuations in several ways, including, but not limited to, verifying unit values or quoted market prices to published data, assessing the valuation methodologies employed by the fund's investment manager, and, where applicable, comparing NAV to the fund's audited financial statements.

Income earned from investments, including realized and unrealized gains and losses, is recorded in the net asset class owning the assets, except for permanently restricted net assets. Income earned from permanently restricted investments, including realized and unrealized gains and losses, is recorded as unrestricted or temporarily restricted net assets based on donor stipulations.

#### ***Investments Risks and Uncertainties***

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, venture capital funds, hedge funds, private equity funds and common trust funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Collections***

The value of the Museum's collections has been excluded from the statements of financial position, and gifts of art objects are excluded from revenue in the statements of activities. Purchases of art objects by the Museum are recorded as decreases in net assets in the statements of activities. The Museum's policy is to exclusively utilize board designated acquisition funds to acquire new objects for its collections. Proceeds from the sale of collection items are reflected as increases in net assets in the statements of activities.

#### ***Property and Equipment***

The land occupied by the Museum's building was appropriated in a prior year and reserved by the City of Newark for the Museum's collections, which are maintained for public exhibition, education, and research in the furtherance of public service. The land had a de minimus value and the original buildings were fully depreciated at that time. Accordingly, no value has been assigned for such land and buildings in the accompanying financial statements.

The Museum capitalizes all building improvements and other property and equipment expenditures or additions in excess of \$1,000, which are recorded at cost or, if donated, at fair value as of the date of receipt. Major renewals and betterments are capitalized. Maintenance and repairs, which do not extend the lives of the respective assets, are expensed. Depreciation is computed on a straight-line basis over the estimated useful life of the asset.

When assets are retired or disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected as an increase or decrease in unrestricted net assets.

#### ***Asset Recoverability***

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairment charge has been recognized for the years ended December 31, 2015 and 2014.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Net Asset Classifications***

The Museum reports information regarding financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

*Unrestricted* - Resources that are fully available at the discretion of management and the Board of Trustees (the Board), for use in activities within the Museum's charter and mission. The Board has designated a portion of the Museum's unrestricted net assets for various purposes. The Board designated balance is reflected in the endowment note. (See note 9)

*Temporarily restricted* - Funds that the Museum may use in accordance with donors' restrictions for specific purposes or upon the passage of time.

*Permanently restricted* - Funds where donor-imposed restrictions stipulate that the resources be maintained in perpetuity. Income earned on permanently restricted net assets is available to be used in the unrestricted or temporarily restricted net asset class, based on stipulations by the donors.

#### ***Accounting for Uncertainty in Income Taxes***

The Museum recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Museum has no uncertain tax positions that would require financial statement recognition or disclosure. The Museum is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2012.

#### ***Governmental Grants and Appropriations***

Cost-reimbursement governmental grants are recognized as revenue at the same time as expenses are incurred based on the terms of the grants. Other governmental grants are recognized as unrestricted or temporarily restricted contributions based on the terms of the grant.

No allowance for non-collectability was required on grants receivable as of December 31, 2015 and 2014.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Contributions***

All unconditional contributions are recorded as revenue when received at their fair value. The fair value of contributions to be received in one year or more is measured based on the present value of future cash flows, with consideration given to possible variations in the amount and/or timing of the cash flows and other specific factors that would be considered by market participants. The fair value measurement also considers donors' credit risk. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. All contributions are considered available for unrestricted use, unless specifically restricted by the donor. The Museum records contributions as permanently restricted if the donor stipulates that the resources be held in perpetuity or, as temporarily restricted if they are received with donor stipulations that limit their use either by purpose or by the passage of time. When donor restrictions expire (i.e., when a purpose or time restriction is fulfilled), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Legacies and bequests are recognized when the right to the gift has been established by the probate court and the proceeds are measurable.

#### ***Contributed Services***

A substantial number of volunteers have made significant contributions of their time in support of the Museum's mission. The value of such contributed services is not recorded in the accompanying financial statements as these services do not require specialized skills and are not susceptible to objective measurement or valuation.

#### ***Membership Dues***

Membership dues are assessed and recognized as revenue on a calendar year basis.

#### ***Refundable Advances***

Advances received for which goods or services have yet to be provided are reported as refundable advances.

#### ***Subsequent Events***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 24, 2016.

#### ***Reclassifications***

Certain prior year amounts have been reclassified to conform to the current year presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 3. Contributions Receivable

Contributions receivable consisted of the following at December 31:

	2015	2014
Due less than one year	\$ 250,537	\$ 256,069
Due between one year and five years	45,186	185,306
Total	295,723	441,375
Less: Allowance for uncollectible accounts	(20,000)	(20,000)
Discount for present value at 5%	(2,170)	(10,799)
	(22,170)	(30,799)
	\$ 273,553	\$ 410,576

### 4. Fair Value Measurements

The following table provides the fair value hierarchy of the Museum's investments as of December 31:

	2015		
	Level 1	Level 2	Total
Equities			
Consumer	\$ 3,870,924	\$ -	\$ 3,870,924
Energy	1,123,088	-	1,123,088
Financials	3,800,400	-	3,800,400
Health Care	2,120,555	-	2,120,555
Industrials	3,705,219	-	3,705,219
Information technology	3,998,842	-	3,998,842
Materials	2,103,719	-	2,103,719
Telecommunications	278,240	-	278,240
Fixed-Income Securities			
Collateralized mortgage obligations	-	75,905	75,905
Commingled Fund			
Fixed income (1)	-	-	16,430,626
Hedge Funds			
Long/short equity (1)	-	-	7,599,174
Total Investments Measured at Fair Value	\$ 21,000,987	\$ 75,905	45,106,692
Money market funds			4,031,982
Total Investments			\$ 49,138,674

**The Newark Museum Association**

Notes to Financial Statements  
December 31, 2015

**4. Fair Value Measurements (continued)**

	2014		
	Level 1	Level 2	Total
Equities			
Consumer	\$ 4,157,703	\$ -	\$ 4,157,703
Energy	1,378,448	-	1,378,448
Financials	3,084,813	-	3,084,813
Health Care	3,709,902	-	3,709,902
Industrials	3,323,792	-	3,323,792
Information technology	3,961,710	-	3,961,710
Materials	2,547,773	-	2,547,773
Telecommunications	156,555	-	156,555
Utilities	190,962	-	190,962
Fixed-Income Securities			
Collateralized mortgage obligations	-	105,613	105,613
Commingled Fund			
Fixed income (1)	-	-	17,730,120
Hedge Funds			
Long/short equity (1)	-	-	7,678,119
Total Investments Measured at Fair Value	<u>\$ 22,511,658</u>	<u>\$ 105,613</u>	48,025,510
Money market funds			4,045,257
Total Investments			<u>\$ 52,070,767</u>

(1) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy. The fair value amounts presented in the total column of this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

Information regarding investments valued at NAV using the practical expedient at December 31, 2015, is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled Fund				
Fixed income (see "a" below)	\$ 16,430,626	\$ -	Daily	3 days
Hedge Funds				
Long/short equity (see "b" below)	7,599,174	-	Quarterly	45 days
Total	<u>\$ 24,029,800</u>	<u>\$ -</u>		

a. This investment seeks to outperform the total return of the investment grade bond market. Investments are limited to treasuries, mortgages, corporate bonds and municipals (all investment grade). Capital preservation is a key theme as is consistent, low volatility returns.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 4. Fair Value Measurements *(continued)*

- b. This investment, with SEG Partners is a long/short equity fund that invests in companies across the market cap spectrum. SEG Partners can invest globally but generally over 80% of the investments are in US domiciled companies. The strategy is generally 35%-75% long and 25%-65% short with a net exposure of 55%-95%. The NAV of the fund is equivalent to its gross assets less its gross liabilities. The Museum's investment is beyond the initial one year lock up.

### 5. Property and Equipment

Property and equipment consisted of the following at December 31:

	2015	2014
Building improvements	\$ 51,200,942	\$ 50,819,229
Furniture, fixtures and equipment	4,536,959	4,477,479
	55,737,901	55,296,708
Accumulated depreciation	(43,753,501)	(42,094,033)
	11,984,400	13,202,675
Construction in progress	134,879	374,105
	\$ 12,119,279	\$ 13,576,780

Depreciation expense consisted of the following for the years ended December 31:

	Estimated Useful Life Years	2015	2014
Building improvements	15 to 25	\$ 1,458,432	\$ 1,683,743
Furniture, fixtures, and equipment	7	201,036	61,053
Total Depreciation		\$ 1,659,468	\$ 1,744,796

### 6. Unrestricted Board-Designated Net Assets

Unrestricted board-designated net assets consist of endowments within the Museum's institutional funds that donors do not require to be held in perpetuity, proceeds from the sale of de-accessioned collections and related investment income, or asset appreciation, that have been designated by the Board for the purchase of collections and other purposes.



## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 7. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

	<u>2015</u>	<u>2014</u>
Capital projects	\$ 1,752,298	\$ 1,762,083
Exhibitions	801,786	811,545
Education and other program services	496,030	865,391
Operating, trustees' room and gallery maintenance	<u>1,874,930</u>	<u>3,301,695</u>
	<u>\$ 4,925,044</u>	<u>\$ 6,740,714</u>

The temporarily restricted net assets included unappropriated investment income of \$1,870,457 and \$3,297,222 at December 31, 2015 and 2014, on permanently restricted net assets.

Net assets were released from donor restrictions (by incurring expenses satisfying the restrictions) as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Capital projects	\$ 9,785	\$ 366,267
Exhibitions	338,604	410,599
Education and other program services	648,642	538,131
Operating, trustees' room and gallery maintenance	<u>1,370,442</u>	<u>975,347</u>
	<u>\$ 2,367,473</u>	<u>\$ 2,290,344</u>

### 8. Permanently Restricted Net Assets

Permanently restricted net assets, classified by purpose for which the income thereon is available for use, are as follows at December 31:

	<u>2015</u>	<u>2014</u>
Education and other program services	\$ 9,370,338	\$ 9,111,646
Operating, trustees' room and gallery maintenance	4,555,035	4,306,339
Art acquisition	<u>100,000</u>	<u>100,000</u>
	<u>\$ 14,025,373</u>	<u>\$ 13,517,985</u>

Accumulated income and appreciation of assets underlying permanently restricted net assets that have not yet been appropriated by the Board for expenditure amounted to \$1,870,457 and \$3,297,222 as of December 31, 2015 and 2014, and are included within temporarily restricted net assets.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 8. Permanently Restricted Net Assets *(continued)*

Permanently restricted net assets include cumulative matching contributions from the New Jersey Cultural Trust that totaled \$1,014,622 and \$1,005,930 at December 31, 2015 and 2014. A cumulative total of \$5,138,115 of the Museum's contributions represent donations which have been certified by the New Jersey Cultural Trust. Permanently restricted net assets also include cumulative contributions from the National Endowment for the Humanities that totaled \$125,000 as of December 31, 2015 and 2014.

### 9. Endowments

The Museum's endowment consists of approximately 100 individual funds established for various purposes. The endowment includes both donor-restricted endowment funds as well as funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The primary objective of the Museum's investment and spending strategies is to provide a stable stream of funds to support its operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of the donor-restricted funds that the Museum must hold in perpetuity or for donor-specific periods as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that ensures safety through diversification with a goal of producing a real return, net of inflation, and investment management costs, of approximately 6% annually. Actual returns in any given year may vary from this amount.

The following table summarizes the changes in the endowment funds in 2015 and 2014:

	2015			
	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 35,311,777	\$ 3,297,222	\$ 13,517,985	\$ 52,126,984
Contributions received	447,770	-	507,388	955,158
Investment income	103,067	49,506	-	152,573
Investment management fees	(220,326)	(105,829)	-	(326,155)
Release from restrictions	1,370,442	(1,370,442)	-	-
Transfer of Board-designated assets to operating fund	(222,500)	-	-	(222,500)
Appropriation for operating activities	(3,054,831)	-	-	(3,054,831)
Other adjustments	(22,422)	-	-	(22,422)
Endowment net assets, end of year	<u>\$ 33,712,977</u>	<u>\$ 1,870,457</u>	<u>\$ 14,025,373</u>	<u>\$ 49,608,807</u>

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 9. Endowments *(continued)*

	2014			Total
	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 33,140,114	\$ 2,837,932	\$ 13,468,255	\$ 49,446,301
Contributions received	15,000	-	58,333	73,333
Investment income	3,113,533	1,534,369	-	4,647,902
Investment management fees	(202,375)	(99,732)	-	(302,107)
Release from restrictions	975,347	(975,347)	-	-
Appropriation for operating activities	(1,729,842)	-	-	(1,729,842)
Other adjustments	-	-	(8,603)	(8,603)
Endowment net assets, end of year	<u>\$ 35,311,777</u>	<u>\$ 3,297,222</u>	<u>\$ 13,517,985</u>	<u>\$ 52,126,984</u>

### 10. Investment Income

The components of the Museum's investment income for the years ended December 31, were as follows:

	2015	2014
Dividends and interest	\$ 379,671	\$ 549,446
Net realized and unrealized (losses) gains on investments	(227,101)	4,098,258
Investment management fees	(326,521)	(365,550)
	<u>\$ (173,951)</u>	<u>\$ 4,282,154</u>

### 11. Functional Expenses

The Museum's expenses are classified by function as follows:

	2015	2014
Program Services		
Exhibitions	\$ 3,013,336	\$ 3,178,632
Education and public programs	3,006,576	2,810,164
Registrar and curatorial	3,004,133	2,283,504
Total Program Services	<u>9,024,045</u>	<u>8,272,300</u>
Supporting Services		
General and administrative	2,396,423	2,898,097
Fundraising and development	2,522,443	2,500,346
Total Supporting Services	<u>4,918,866</u>	<u>5,398,443</u>
	<u>\$ 13,942,911</u>	<u>\$ 13,670,743</u>

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 12. Retirement Plans

The Museum is a participant in the multi-employer benefit plans (collectively, the Plans) administered by The Cultural Institutions Retirement System ("CIRS"). Due to the negotiations that included the approval of the Cultural Institution and Day Care Council Management Group, the three unions involved in the Bargaining (District Council 37, District Council 1707 and the Council of Supervisors and Administrators), and the City of New York, a new Collective Bargaining Agreement ("CBA") was reached. The two-year CBA covered the period from July 1, 2013 to June 30, 2015. The changes to the Pension and 401(k) Savings Plans were deemed effective July 1, 2013 and affected all CIRS Members (whether or not covered by a collective bargaining agreement) as described below in each section.

The risk of participating in a multi-employer plan is different from a single-employer plan in the following aspects:

- a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If an employer chooses to stop participating in some of its multi-employer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

#### ***Pension Plan***

The Museum participates in The Cultural Institutions Pension Plan ("Pension Plan"), a multi-employer defined benefit plan funded by the participating employers. To be eligible under the Pension Plan, employees must be over 21 years of age and be employed for a period of one year. Participants become 100% vested after five years of service. There are no partial vesting provisions.

Under the CBA (as of July 1, 2013), CIRS Members who reach age 64, and have at least one year of service, will no longer be considered vested in the Pension Plan. This change will only affect employees hired on or after July 1, 2013 and the five year vesting rule will now apply to all plan participants, regardless of their age, hired on or after July 1, 2013. The current formula remains unchanged for the duration of the CBA.

CIRS is responsible for administering all aspects of the Pension Plan, including investments of the Pension Plan assets. The fiscal year of the Pension Plan is from July 1 to June 30.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 12. Retirement Plans *(continued)*

#### *Pension Plan (continued)*

The Museum's participation in this plan for the years ended June 30, 2015 and 2014 is outlined in the table below:

Pension Fund	EIN/Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	The Museum Contributions		Surcharge Imposed	Collective Bargaining Agreement Exp. Date
		2015	2014		2015	2014		
The Cultural Institutions Pension Plan	11-2001170 001	Green	Green	N/A	\$ 481,031	\$ 480,085	No	June 30, 2015

The zone status is based on information that the Museum received from the plan and is certified by the plan's actuary. Green zone status are for plans that are at least 80 percent funded.

The CBA which governs the CIRS Plans expired on June 30, 2015 and as of the current date, the bargaining parties are continuing to negotiate the terms of a new agreement. As a result, all features of the Plans which were in effect prior to June 30, 2015 continue to remain in place.

#### *Savings Plan*

The Museum also participates in The Cultural Institutions Savings Plan ("Savings Plan"), a CIRS administered Section 401(k) defined contribution plan. Under the Savings Plan, employees are required to make minimum contributions of 2% and direct the investment of their funds based on the investment options offered. To be eligible under the Savings Plan, employees must be over 21 years of age and employed for a minimum of three months. Employees are eligible for matching contributions from their employers up to a percentage of salary, which is 2% for the Museum's employees.

Employer matching contributions to the CIRS 401(k) Savings Plan will be suspended for the fiscal 2015 and 2016 plan years. This change will affect the employer matching contributions that otherwise would have been made in July of 2014 and in July of 2015. This does not change the requirement that all CIRS Members contribute at least 2% of their salary to the Savings Plan and does not affect the match that was already made in July 2013.

At its December 2013 meeting, following recommendations of the Museum's Human Resources Committee, the Museum's Executive Committee approved an appropriation 1% of each employee salary which they could then voluntarily contribute to the Savings Plan. The employees received 1% in 2015 and 2014.

CIRS is responsible for administering all aspects of the Savings Plan, including the selection of investment providers for the Savings Plan.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2015

### 12. Retirement Plans *(continued)*

#### ***Group Life and Welfare Plan***

The Museum also participates in The Cultural Institutions Group Life and Welfare Plan ("Group Life and Welfare Plan"), a plan administered by CIRS. Participating employers pay the premiums and costs for administration of the Group Life and Welfare Plan. To be eligible under the Group Life and Welfare Plan, full time employees are eligible for life insurance following three months of employment. The premiums provide a death benefit payable by the insurance carrier to designated beneficiaries upon the death of a member. Coverage is determined by the member's basic annual salary and years of service. The benefit is 200% of salary for members with 10 or more years of service and 100% of salary for members with less than 10 years of service. Coverage is subject to a maximum of \$500,000. At ages 70, 75, and 79, a member's amount of insurance is reduced.

The Museum's total contributions to the CIRS plans in 2015 and 2014 totaled \$551,270 and \$518,268, which consisted of \$487,023 and \$457,581 for the Pension Plan, \$141 and \$(1,795) for the Savings Plan, \$15,110 and \$14,723 for Group Life and Welfare Plan, and \$48,996 and \$47,759 for plan administration. The Museum's contributions to the Plan did not exceed 5% of the Plan's total contributions for the years ended June 30, 2015 and 2014.

### 13. Commitments

#### ***Line of Credit***

The Museum maintained a line of credit in the aggregate amount of \$500,000, which expired on June 30, 2015. Borrowings under the line of credit were available in the form of advances intended to be used to meet normal short-term working capital needs. The advances were collateralized by the Museum's property, as defined in the agreement, and bore interest at a rate generally based on the London-interbank offered rate as calculated under the terms of the agreement.

During 2015, the Museum obtained a line of credit in the aggregate amount of \$2,000,000, which expires on December 2, 2017. Borrowings under the line of credit are available in the form of advances, which are collateralized by the Museum's deposit account including all balances as of the date of the agreement plus all future deposits, interest and other credits, as defined in the agreement, and will bear interest at a per annum rate equal to one-half percent below the Wall Street Journal Prime Rate.

As of and for the years ended December 31, 2015 and 2014 the Museum did not have any borrowings against the line of credit agreements.

**The Newark Museum Association**

Notes to Financial Statements  
December 31, 2015

**13. Commitments (continued)**

**Leases**

Annual minimum future rental payments on equipment under non-cancelable operating leases as of December 31, 2015 are as follows for the years ending December 31:

2016	\$ 52,239
2017	51,453
2018	49,095
2019	49,095
2020	<u>27,508</u>
	<u>\$ 229,390</u>

Total rent expense amounted to \$51,408 and \$52,451 in 2015 and 2014.

**14. Concentrations of Credit and Market Risks**

Financial instruments, which potentially subject the Museum to concentrations of credit and market risk, primarily include cash and cash equivalents and investments, which are carried at fair value. During the year, the cash balances in these institutions exceed the Federal Deposit Insurance Corporation insurance level. Generally, these deposits may be redeemed upon demand, therefore, bear minimal risk. The Museum places its investments in equity and debt securities at the direction of its Board, while it monitors the credit risks associated with these institutions on an ongoing basis.

Grants receivable are due from governmental funding agencies and pledges receivable are primarily with corporations and individuals.

Approximately 75% and 62% of the Museum's governmental grants and appropriation revenue was received from one governmental agency in 2015 and 2014.

\* \* \* \* \*