

The Newark Museum Association

Financial Statements

December 31, 2018 and 2017

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, 2018 and 2017, and the related statements of activities, functional expenses 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.

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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended December 31, 2018 the Museum adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

PKF O'Connor Davies, LLP

March 25, 2019

The Newark Museum Association

Statements of Financial Position

	December 31	
	2018	2017
ASSETS		
Cash and cash equivalents (Note 8)	\$ 7,487,210	\$ 8,217,956
Grants receivable (Note 3)	504,049	573,781
Contributions receivable, net (Note 3)	1,323,677	2,359,001
Prepaid expenses and other assets	779,410	455,332
Investments (Note 4 and 8)	36,541,684	40,809,093
Property and equipment, net (Note 5)	15,790,464	14,792,667
Museum collections (Note 2)	-	-
	\$ 62,426,494	\$ 67,207,830
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,148,946	\$ 1,502,224
Refundable advances	37,757	952
Total Liabilities	1,186,703	1,503,176
Net Assets		
Without donor restrictions	44,336,916	44,740,890
With donor restrictions		
Time or purpose restricted	3,213,690	7,418,391
Investments held in perpetuity	13,689,185	13,545,373
Total Net Assets	61,239,791	65,704,654
	\$ 62,426,494	\$ 67,207,830

See notes to financial statements

The Newark Museum Association

Statement of Activities Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions		Total
		Time or Purpose Restricted	Investments Held in Perpetuity	
OPERATING ACTIVITIES				
Operating Revenues, Gains, and Other Support				
Governmental grants and appropriations	\$ 5,082,140	\$ -	\$ -	\$ 5,082,140
Contributions and pledges, net of refund	1,323,783	3,393,309	10,000	4,727,092
Membership and tours	732,923	-	-	732,923
Educational	298,309	-	-	298,309
Investment return designated for operations	3,650,743	742,895	-	4,393,638
Other revenue	816,739	-	-	816,739
Net assets released from restriction	6,765,564	(6,765,564)	-	-
Total Operating Revenues, Gains, and Other Support	<u>18,670,201</u>	<u>(2,629,360)</u>	<u>10,000</u>	<u>16,050,841</u>
Operating Expenses				
Program services	9,695,377	-	-	9,695,377
General and administrative	1,597,310	-	-	1,597,310
Fundraising and development	2,724,516	-	-	2,724,516
Total Operating Expenses	<u>14,017,203</u>	<u>-</u>	<u>-</u>	<u>14,017,203</u>
Change in Net Assets from Operations	<u>4,652,998</u>	<u>(2,629,360)</u>	<u>10,000</u>	<u>2,033,638</u>
NON-OPERATING ACTIVITIES				
Investment return less amounts designated for current operations	(4,604,775)	(1,441,529)	-	(6,046,304)
Sale of collection items	219,688	-	-	219,688
Collections purchased	(671,885)	-	-	(671,885)
Total Non-Operating Activities	<u>(5,056,972)</u>	<u>(1,441,529)</u>	<u>-</u>	<u>(6,498,501)</u>
Change in Net Assets	<u>(403,974)</u>	<u>(4,070,889)</u>	<u>10,000</u>	<u>(4,464,863)</u>
NET ASSETS				
Beginning of year	44,740,890	7,418,391	13,545,373	65,704,654
Donor redesignation	-	(133,812)	133,812	-
End of year	<u>\$ 44,336,916</u>	<u>\$ 3,213,690</u>	<u>\$ 13,689,185</u>	<u>\$ 61,239,791</u>

See notes to financial statements

The Newark Museum Association

Statement of Activities Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions		Total
		Time or Purpose Restricted	Investments Held in Perpetuity	
OPERATING ACTIVITIES				
Operating Revenues, Gains, and Other Support				
Governmental grants and appropriations	\$ 5,326,068	\$ -	\$ -	\$ 5,326,068
Contributions and pledges	1,710,985	4,951,102	10,000	6,672,087
Membership and tours	781,172	-	-	781,172
Educational	293,609	-	-	293,609
Investment return designated for operations	7,221,525	1,047,731	-	8,269,256
Other revenue	380,441	-	-	380,441
Net assets released from restriction	3,916,885	(3,916,885)	-	-
Total Operating Revenues, Gains, and Other Support	<u>19,630,685</u>	<u>2,081,948</u>	<u>10,000</u>	<u>21,722,633</u>
Operating Expenses				
Program services	9,928,234	-	-	9,928,234
General and administrative	1,926,907	-	-	1,926,907
Fundraising and development	2,809,294	-	-	2,809,294
Total Operating Expenses	<u>14,664,435</u>	<u>-</u>	<u>-</u>	<u>14,664,435</u>
Change in Net Assets from Operations	<u>4,966,250</u>	<u>2,081,948</u>	<u>10,000</u>	<u>7,058,198</u>
NON-OPERATING ACTIVITIES				
Investment return less amounts designated for current operations	(3,556,459)	482,765	-	(3,073,694)
Sale of collection items	564,393	-	-	564,393
Collections purchased	(4,749,528)	-	-	(4,749,528)
Total Non-Operating Activities	<u>(7,741,594)</u>	<u>482,765</u>	<u>-</u>	<u>(7,258,829)</u>
Change in Net Assets	<u>(2,775,344)</u>	<u>2,564,713</u>	<u>10,000</u>	<u>(200,631)</u>
NET ASSETS				
Beginning of year	<u>47,516,234</u>	<u>4,853,678</u>	<u>13,535,373</u>	<u>65,905,285</u>
End of year	<u>\$ 44,740,890</u>	<u>\$ 7,418,391</u>	<u>\$ 13,545,373</u>	<u>\$ 65,704,654</u>

See notes to financial statements

The Newark Museum Association

Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services				Supporting Services		Total 2018
	Exhibitions	Education and Public Programs	Registrar and Curatorial	Total	General and Administrative	Fundraising and Development	
Salaries and wages	\$ 891,520	\$ 1,264,012	\$ 1,808,801	\$ 3,964,333	\$ 712,330	\$ 1,658,916	\$ 6,335,579
Employee benefits and taxes	404,832	412,248	574,935	1,392,015	205,588	399,398	1,997,001
Professional fees and consultants	144,233	176,831	249,762	570,826	208,565	56,715	836,106
Program supplies	100,520	51,381	129,862	281,763	19,960	32,766	334,489
Office expenses	52,068	128,206	19,609	199,883	12,882	42,595	255,360
Travel, conference and meetings	26,100	15,686	117,474	159,260	47,859	58,259	265,378
Marketing expenses	107,173	59,574	100,920	267,667	5,220	216,996	489,883
Occupancy and building maintenance	834,031	408,388	172,214	1,414,633	62,786	73,402	1,550,821
Insurance	149,083	104,048	24,057	277,188	5,323	7,856	290,367
Other general and administrative	15,632	3,071	4,270	22,973	292,696	141,460	457,129
Depreciation	783,309	241,018	120,509	1,144,836	24,101	36,153	1,205,090
Total Expenses	\$ 3,508,501	\$ 2,864,463	\$ 3,322,413	\$ 9,695,377	\$ 1,597,310	\$ 2,724,516	\$ 14,017,203

See notes to financial statements

The Newark Museum Association

Statement of Functional Expenses Year Ended December 31, 2017

	Program Services				Supporting Services		Total 2017
	Exhibitions	Education and Public Programs	Registrar and Curatorial	Total	General and Administrative	Fundraising and Development	
Salaries and wages	\$ 962,618	\$ 1,332,363	\$ 1,884,838	\$ 4,179,819	\$ 784,098	\$ 1,733,998	\$ 6,697,915
Employee benefits and taxes	477,034	472,561	699,008	1,648,603	217,386	466,497	2,332,486
Professional fees and consultants	173,968	201,622	227,182	602,772	170,659	68,034	841,465
Program supplies	212,896	52,219	81,774	346,889	26,175	27,637	400,701
Office expenses	10,467	36,449	14,037	60,953	47,025	33,495	141,473
Travel, conference and meetings	19,795	19,213	98,088	137,096	54,376	59,920	251,392
Marketing expenses	229,704	21,080	211,390	462,174	1,824	200,859	664,857
Occupancy and building maintenance	730,402	355,062	158,708	1,244,172	57,268	65,530	1,366,970
Insurance	146,771	108,992	23,701	279,464	5,252	7,749	292,465
Other general and administrative	4,320	3,320	4,283	11,923	542,752	115,437	670,112
Depreciation	652,989	200,920	100,460	954,369	20,092	30,138	1,004,599
Total Expenses	<u>\$ 3,620,964</u>	<u>\$ 2,803,801</u>	<u>\$ 3,503,469</u>	<u>\$ 9,928,234</u>	<u>\$ 1,926,907</u>	<u>\$ 2,809,294</u>	<u>\$ 14,664,435</u>

See notes to financial statements

The Newark Museum Association

Statements of Cash Flows

	Year Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,464,863)	\$ (200,631)
Adjustments to reconcile change in net assets to net cash from operating activities		
Endowment funds gifts	(10,000)	(10,000)
Depreciation	1,205,090	1,004,599
Present value discount on contributions receivable	(52,514)	(8,587)
Realized and unrealized loss (gain) on investments	1,786,196	(5,325,607)
Purchases and sales of collections, net	452,197	4,185,135
Changes in operating assets and liabilities		
Grants receivable	69,732	23,537
Contributions receivable	1,087,838	(1,439,716)
Prepaid expenses and other assets	(324,078)	(228,534)
Accounts payable and accrued expenses	(353,278)	370,114
Refundable advances	36,805	(223,585)
Net Cash from Operating Activities	(566,875)	(1,853,275)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,202,887)	(3,639,018)
Purchase of investments	(41,336,971)	(11,763,799)
Proceeds from sale of investments	43,818,184	23,912,180
Purchase of collections	(671,885)	(4,749,528)
Proceeds from sale of collections	219,688	564,393
Net Cash from Investing Activities	(173,871)	4,324,228
CASH FLOWS FROM FINANCING ACTIVITIES		
Endowment funds gifts received	10,000	10,000
Net Change in Cash and Cash Equivalents	(730,746)	2,480,953
CASH AND CASH EQUIVALENTS		
Beginning of year	8,217,956	5,737,003
End of year	\$ 7,487,210	\$ 8,217,956

See notes to financial statements

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

1. The Museum

Founded in 1909, The Newark Museum Association (the “Museum”) is one of the most influential museums in the United States and the largest art and education institution in New Jersey. Its extensive collections, which include art from around the globe as well as significant holdings of science, technology and natural history, rank 12th in size nationally. The Museum is dedicated to artistic excellence, education and community engagement with an overarching commitment to broadening and diversifying participation in the arts.

A cultural anchor institution in Newark for over a century, the Museum advances its mission by operating in the public trust as a museum of service, and as a leader in connecting objects and ideas to the needs and wishes of its constituencies. The Museum’s renowned art 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 founder John Cotton Dana, “a good museum attracts, entertains, arouses curiosity, leads to questioning and thus promotes learning.” The Museum responds to the evolving needs and interests of the diverse audiences it serves by providing exhibitions, programming, a research library, partnerships and resources designed to enrich people’s lives.

The Museum’s distinguished art collections are international in scope and include an Asian Art collection with the most important collection of Tibetan art in the West; one of the nation’s earliest and most comprehensive collections of African Art; a nationally and internationally recognized collection of 18th- to 21st-century American painting and sculpture; an acclaimed Decorative Arts collection; and Ancient Mediterranean collections featuring an unparalleled collection of ancient glass. The Museum’s collections reflect Dana’s belief that art can be found everywhere in the world, that the creative impulse can be expressed in any medium, and that art is for everyone.

The Museum’s collections are presented in 91 galleries housed on a seven-acre campus that encompasses the Ballantine House, a Victorian-era mansion which is a National Historic Landmark, the Dreyfuss Memorial Garden, and Horizon Plaza. The Museum also features the Dreyfuss Planetarium as well as the MakerSPACE, a dedicated maker studio and exhibition space that offers interactive, hands-on activities for visitors of all ages that integrate the arts with STEM learning.

Considered the birthplace of museum-based education, the Museum remains one of the leaders in arts education in the country. The Museum offers a wealth of on-site and off-site school programs for New Jersey students from Pre-K through 12th grade, as well as professional development training sessions for teachers, that support state curriculum standards in the arts, sciences and the humanities. In addition, the Museum serves as an educational resource for the entire community by providing varied programming for all ages that increases visitors’ engagement with works in the collections and promotes lifelong learning and creativity. Popular signature programs include: Late Thursdays, evening programming for adult audiences; Second Sundays, multicultural activities and experiences for all ages; Jazz in the Garden; the Martin Luther King Jr. Day Celebration; and the Newark Black Film Festival, which is celebrating its 45th anniversary year in 2019.

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

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.

Change in Accounting Principle

On January 1, 2018, the Museum adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the Museum to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Museum to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

The changes have the following effect on net assets at December 31, 2017:

Net Asset Classifications	ASU 2016-14 Classifications			Total Net Assets
	Without Donor Restrictions	With Donor Restrictions		
		Time or Purpose Restricted	Investments Held in Perpetuity	
As Previously Presented:				
Unrestricted net assets	\$ 44,740,890	\$ -	\$ -	\$ 44,740,890
Temporarily restricted net assets	-	7,418,391	-	7,418,391
Permanently restricted net assets	-	-	13,545,373	13,545,373
Total Net Assets	\$ 44,740,890	\$ 7,418,391	\$ 13,545,373	\$ 65,704,654

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.

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

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

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.

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

Investments Valuation 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 are carried at fair value based on the NAV per share of the class of the Museum's investment, as determined by the 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 investment manager, and, where applicable, comparing NAV to the audited financial statements. Investment receivable consists of a sale of a Museum investment pending settlement.

Income earned from net assets with donor restriction investments, including realized and unrealized gains and losses, is recorded as net assets without donor restriction or net assets with donor restriction 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.

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

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

Investments Risks and Uncertainties (continued)

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.

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 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 \$2,000, 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 ranging from 7 to 25 years.

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 net assets without donor restrictions.

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, 2018 and 2017.

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

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

Net Asset Classifications

The Museum reports information regarding financial position and activities according to two classes of net assets: without and with donor restrictions.

Without donor restrictions - 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 net assets for various purposes. 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. (See note 6)

With donor restrictions – represent amounts restricted by donors to be used for specific activities or at some future date, or which require the Museum to maintain in perpetuity, including funds that are subject to restrictions or gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Income and gains earned on endowment fund investments are available to be used in the “without donor restrictions” or “with donor restrictions” net asset classes based upon stipulations by the donors.

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 without or with donor restricted contributions based on the terms of the grant.

No allowance for non-collectability was required on grants receivable as of December 31, 2018 and 2017.

Measure of Operations

Operations include all revenues and expenses that are an integral party of the Museum's programs and supporting activities. The measure of operations includes investment income equal to a 4% spending rate and excludes investment return in excess of, or less than, the 4% spending rate and purchase and sale of Museum collection items.

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

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

Contributions

All unconditional contributions are recorded as revenue when received at their net realizable value. The value of contributions expected to be received in more than one year are 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 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 general use, unless specifically restricted by the donor. The Museum records contributions within its endowment fund if the donor stipulates that the resources be held in perpetuity or, as time or purpose 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), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction in receivables.

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.

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

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

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Program expenses include Exhibitions, Registrar and Curatorial, and Education and Public Programs. Supporting services include General and Administrative and Fundraising and Development. These expenses are allocated to the above mentioned activities based on three metrics, projects worked during the applicable fiscal year, square footage, and personnel head count.

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 2015.

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 25, 2019.

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.

Donor Redesignation

In fiscal 2018, the Board of Trustees received requests from previous donors to re-designate their contributions previously classified within time or purpose to investments held in perpetuity.

3. Contributions Receivable

Contributions receivable consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Due less than one year	\$ 980,000	\$ 1,332,665
Due between one year and five years	<u>423,376</u>	<u>1,158,549</u>
Total	1,403,376	2,491,214
Less: Allowance for uncollectible accounts	(50,000)	(50,000)
Discount for present value at 5%	<u>(29,699)</u>	<u>(82,213)</u>
	<u>\$ 1,323,677</u>	<u>\$ 2,359,001</u>

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

4. Fair Value Measurements

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

	2018		
	Level 1	Level 2	Total
Equities			
US Large Cap	\$ 5,640,483	\$ -	\$ 5,640,483
US Mid Cap	2,901,255	-	2,901,255
US Small Cap	1,814,784	-	1,814,784
International Developed	3,492,712	-	3,492,712
Emerging Markets	1,652,694	-	1,652,694
Commodities	531,678	-	531,678
Fixed income securities	-	9,011,556	9,011,556
Total Investments Measured at Fair Value	<u>\$ 16,033,606</u>	<u>\$ 9,011,556</u>	25,045,162
Money market funds, at cost			5,704,820
Investment receivable			5,791,702
Total Investments			<u>\$ 36,541,684</u>

	2017			
	Level 1	Level 2	Investments valued using NAV (*)	Total
Equities				
US Large Cap	\$ 8,850,513	\$ -	\$ -	\$ 8,850,513
US Mid Cap	3,992,532	-	-	3,992,532
US Small Cap	1,441,370	-	-	1,441,370
International Developed	1,987,576	-	-	1,987,576
Emerging Markets	175,650	-	-	175,650
Fixed-Income Securities				
Collateralized mortgage obligations	-	41,060	-	41,060
Commingled Fund				
Fixed income	-	1,176,536	10,784,965	11,961,501
Hedge Funds				
Long/short equity	-	-	7,039,323	7,039,323
Total Investments Measured at Fair Value	<u>\$ 16,447,641</u>	<u>\$ 1,217,596</u>	<u>\$ 17,824,288</u>	35,489,525
Money market funds, at cost				5,319,568
Total Investments				<u>\$ 40,809,093</u>

(*) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy.

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

5. Property and Equipment

Property and equipment consisted of the following at December 31:

	2018	2017
Building improvements	\$ 58,740,535	\$ 53,316,129
Furniture, fixtures and equipment	2,942,425	2,820,321
Information technology	668,932	631,792
	62,351,892	56,768,242
Less: Accumulated depreciation	(47,118,374)	(45,913,284)
	15,233,518	10,854,958
Construction in progress	556,946	3,937,709
	\$ 15,790,464	\$ 14,792,667

6. Net Assets without Donor Restrictions

The Board of Trustees of The Newark Museum Association has designated certain assets without donor restrictions. These funds are classified in purpose and include volunteer initiatives, funds related to capital assets and the endowment funds. Volunteer initiatives include donations for specific curatorial areas or disparate projects. Capital asset funds are related to the property and equipment of the Museum. The endowment is designated for acquisitions, general reserves, direct collections care, and to provide a stable stream of funds to support its operations. The balances at December 31 are as follows:

	2018	2017
Undesignated - operations	\$ 4,182,203	\$ 4,043,234
Board Designated:		
Volunteer initiatives	398,119	348,143
Funds related to capital	14,732,461	12,320,902
Endowment	25,024,133	28,028,611
	\$ 44,336,916	\$ 44,740,890

7. Net Assets with Donor Restrictions

Net assets with time or purpose restrictions at December 31 are restricted for the following purposes:

	2018	2017
Capital projects	\$ 1,289,718	\$ 4,197,851
Exhibitions	213,375	223,785
Education and other program services	1,399,081	1,243,710
Operating, trustees' room and gallery maintenance	311,516	1,753,045
	\$ 3,213,690	\$ 7,418,391

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

7. Net Assets with Donor Restrictions *(continued)*

The above restricted net assets include unappropriated investment income of \$394,066 and \$1,748,572 at December 31, 2018 and 2017, from endowment fund net assets.

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

	2018	2017
Capital projects	\$ 3,908,553	\$ 833,591
Exhibitions	457,215	556,481
Education and other program services	1,790,713	981,861
Operating, trustees' room and gallery maintenance	609,083	1,544,952
	\$ 6,765,564	\$ 3,916,885

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

	2018	2017
Education and other program services	\$ 8,870,338	\$ 8,870,338
Operating, trustees' room and gallery maintenance	4,718,847	4,575,035
Art acquisition	100,000	100,000
	\$ 13,689,185	\$ 13,545,373

Accumulated income and appreciation of assets underlying investments held in perpetuity that have not yet been appropriated by the Board for expenditure amounted to \$394,066 and \$1,748,572 as of December 31, 2018 and 2017, and are included within time and purpose restricted net assets.

Endowment fund net assets include cumulative matching contributions from the New Jersey Cultural Trust that totaled \$1,014,622 at December 31, 2018 and 2017. A cumulative total of \$5,138,115 of the Museum's contributions represent donations which have been certified by the New Jersey Cultural Trust. Endowment fund net assets also include cumulative contributions from the National Endowment for the Humanities that totaled \$125,000 as of December 31, 2018 and 2017.

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

8. 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. As required by US GAAP, 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 Board of the Museum has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 endowment fund net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 endowment fund net assets is classified as time or purpose restricted net assets until those amounts are appropriated for expenditure by the Museum's Board in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, 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 various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Museum's investment policies.

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 and diversified with a goal of producing an annual real return of approximately 6%, net of inflation, and investment management costs. Actual returns in any given year may vary from this amount.

In 2018 the Museum updated its Investment Policy. The Museum designated its spending policy for Endowment Funds as up to 4% annually, calculated using the prior 12 quarter average of the investment portfolio's market value.

The Newark Museum Association

Notes to Financial Statements December 31, 2018 and 2017

8. Endowments *(continued)*

The following table summarizes the changes in the endowment funds in 2018 and 2017:

	2018			Total
	Board Designated	Time or Purpose Restricted	Investments Held in Perpetuity	
Endowment net assets, beginning of year	\$ 28,210,834	\$ 1,748,572	\$ 13,545,373	\$ 43,504,779
Contributions received	219,688	-	10,000	229,688
Donor redesignation	-	-	133,812	133,812
Investment return	(1,127,255)	(611,611)	-	(1,738,866)
Release from restrictions	742,895	(742,895)	-	-
Transfer of board-designated assets to operating fund	(2,235,963)	-	-	(2,235,963)
Appropriation for operating activities	(1,414,780)	-	-	(1,414,780)
Other adjustments	(60,483)	-	-	(60,483)
Endowment net assets, end of year	<u>\$ 24,334,936</u>	<u>\$ 394,066</u>	<u>\$ 13,689,185</u>	<u>\$ 38,418,187</u>

	2017			Total
	Board Designated	Time or Purpose Restricted	Investments Held in Perpetuity	
Endowment net assets, beginning of year	\$ 33,962,666	\$ 1,265,807	\$ 13,535,373	\$ 48,763,846
Contributions received	564,393	-	10,000	574,393
Investment return	3,539,847	1,530,496	-	5,070,343
Release from restrictions	1,047,731	(1,047,731)	-	-
Transfer of Board-designated assets to operating fund	(1,424,266)	-	-	(1,424,266)
Donor redesignation	(3,656,853)	-	-	(3,656,853)
Appropriation for operating activities	(5,797,259)	-	-	(5,797,259)
Other adjustments	(25,425)	-	-	(25,425)
Endowment net assets, end of year	<u>\$ 28,210,834</u>	<u>\$ 1,748,572</u>	<u>\$ 13,545,373</u>	<u>\$ 43,504,779</u>

The Museum's endowment consisted of the following at December 31:

	2018	2017
Cash and cash equivalents	\$ 1,852,300	\$ 2,670,720
Investments	36,541,684	40,809,093
Accrued interest	24,203	24,966
	<u>\$ 38,418,187</u>	<u>\$ 43,504,779</u>

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

8. Endowments (*continued*)

In 2017, the Museum's Board of Trustees voted and approved an internal loan of \$3,656,853 to finance the Washington Street Entry and Accessibly Project (the "Project"). The project consists of ADA compliance for the front doors of the main building of the Museum, and major improvements to additional galleries. These funds were removed from the endowment and placed into a board-designated cash account and is included in cash and cash equivalents on the statement of financial position in 2017. The Project was completed in 2018. Also, in 2017 the Board authorized the release of board-designated funds in the amount of \$3,400,000 for a collection acquisition.

9. Liquidity and Availability of Financial Assets

The following reflect the Museum's financial assets as of December 31, 2018, reduced by amounts not available for general use within one year of that date because of contractual or donor-imposed restrictions or internal designations. Amounts available include the Board-approved appropriations from the endowment fund for the following year as well as donor-restricted amounts that are available for general expenditure in the following year. Amounts not available include amounts set aside for operating and other revenues that could be drawn upon with Board approval.

Financial Assets:	
Cash and cash equivalents	\$ 7,487,210
Grants receivable	504,049
Contributions receivable	1,323,677
Investments	36,541,684
Endowment fund appropriation for following year	<u>1,011,695</u>
Total Financial Assets	<u>46,868,315</u>
Less: Contractual or donor imposed restrictions amounts	
Contributions receivable - Due in future years	343,677
Restricted by donor with time or purpose restrictions	2,475,947
Endowment funds:	
Board designated reserve fund	24,334,936
Donor restricted endowment funds	<u>14,083,251</u>
	<u>41,237,811</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 5,630,504</u>

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

9. Liquidity and Availability of Financial Assets (*continued*)

The Museum's endowment funds consist of funds designated by the Board as endowments and donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. As part of the Museum's liquidity management, the Museum strives to maintain funds in accessible accounts to cover operating expenses.

In the event of an unanticipated liquidity need, the Museum could draw upon its line of credit (as further discussed in Note 11) or its board designated endowment fund. The Museum's board-designated endowment of \$24,334,936 is subject to an annual spending rate of 4% as described in Note 9. The Museum does not intend to spend from the board-designated endowment, other than amounts appropriated for general expenditure as part of the annual budget approval and appropriation. These funds could be made available, if necessary, subject to American Alliance of Museums ("AAM") guidelines.

10. 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 negotiations in 2016 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 five-year CBA covers the period from July 1, 2015 to June 30, 2020. Changes to the Pension and 401(k) Savings Plans were deemed effective July 1, 2015 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.

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

10. Retirement Plans *(continued)*

Pension Plan (continued)

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 Museum's participation for the Pension Plan's fiscal years ended June 30, 2018 and 2017 is outlined in the table below:

Pension Fund	EIN/Plan Number	Pension Protection Act Zone Status		FIP/RP Status	The Museum Contributions		Surcharge Imposed	Collective Bargaining Agreement Exp. Date
		2018	2017	Pending/Implemented	2018	2017		
The Cultural Institutions Pension Plan	11-2001170 001	Green	Green	N/A	\$ 661,697	\$ 585,271	No	6/30/2020

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

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 make contributions and direct the investment of their funds based on the investment options offered. The mandatory 2% CIRS Savings Plan employee contribution expired on December 31, 2016. Effective January 1, 2017, employees are no longer required to contribute to the Plan. As of January 1, 2017, these employees will be able to reduce their contribution percentage, if desired, by contacting Voya.

After January 1, 2017 new plan participants will be defaulted at a 0% contribution rate (instead of 2%) until they make an active election with Voya to change their contribution election.

Employer matching contributions to the Savings Plan have been suspended since July 1, 2015.

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

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

10. 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 2018 and 2017 totaled \$685,073 and \$670,233, which consisted of \$593,704 and \$584,952 for the Pension Plan, \$14,465 and \$14,755 for Group Life and Welfare Plan, and \$76,904 and \$70,526 for plan administration. The Museum's contributions to the Plan did not exceed 5% of a plan's total contributions for the years ended December 31, 2018 and 2017.

11. Commitments

Line of Credit

The Museum has a line of credit available in the amount of \$2,000,000, through February 2020. 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 the daily LIBOR rate plus 1.75%.

As of and for the years ended December 31, 2018 and 2017 the Museum did not have any borrowings against the line of credit agreement.

Leases

Annual minimum future rental payments on equipment under non-cancelable operating leases as of December 31, 2018 are as follows for the years ending December 31:

2019	\$ 49,095
2020	<u>27,508</u>
	<u>\$ 76,603</u>

Total rent expense amounted to \$58,503 and \$57,030 in 2018 and 2017.

The Newark Museum Association

Notes to Financial Statements
December 31, 2018 and 2017

12. 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 exceeded 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 contributions receivable are primarily with foundations, corporations and individuals.

A concentration of credit risk existed with respect to grants receivable and contributions receivable as amounts receivable from two donors represented 60% and 82% of the total balances as of December 31, 2018 and 2017. Approximately 78% and 76% of the Museum's governmental grants and appropriation revenue was received from one governmental agency in 2018 and 2017.

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