

The Newark Museum Association

Financial Statements

December 31, 2016 and 2015



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, 2016 and 2015, 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.

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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, 2016 and 2015, 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 23, 2017

The Newark Museum Association

Statements of Financial Position

	December 31	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 5,737,003	\$ 7,808,767
Grants receivable	597,318	565,105
Contributions receivable, net	937,783	273,553
Prepaid expenses and other assets	199,713	539,323
Investments	47,631,867	49,138,674
Property and equipment, net	<u>12,158,248</u>	<u>12,119,279</u>
	<u>\$ 67,261,932</u>	<u>\$ 70,444,701</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,132,110	\$ 1,114,207
Refundable advances	<u>224,537</u>	<u>228,454</u>
Total Liabilities	<u>1,356,647</u>	<u>1,342,661</u>
Net Assets		
Unrestricted	47,516,234	50,151,623
Temporarily restricted	4,853,678	4,925,044
Permanently restricted	<u>13,535,373</u>	<u>14,025,373</u>
Total Net Assets	<u>65,905,285</u>	<u>69,102,040</u>
	<u>\$ 67,261,932</u>	<u>\$ 70,444,701</u>

See notes to financial statements

The Newark Museum Association

Statement of Activities Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Operating Revenues, Gains, and Other Support				
Governmental grants and appropriations	\$ 5,125,862	\$ -	\$ -	\$ 5,125,862
Contributions and pledges	1,546,229	2,083,446	10,000	3,639,675
Membership and tours	716,918	-	-	716,918
Educational	355,106	-	-	355,106
Investment return	1,658,376	755,503	-	2,413,879
Other revenue	548,811	-	-	548,811
Net assets released from restriction	<u>2,910,315</u>	<u>(2,910,315)</u>	<u>-</u>	<u>-</u>
Total Operating Revenues, Gains, and Other Support	<u>12,861,617</u>	<u>(71,366)</u>	<u>10,000</u>	<u>12,800,251</u>
Operating Expenses				
Salaries	6,660,316	-	-	6,660,316
Employee benefits and payroll taxes	2,524,394	-	-	2,524,394
Building operations	629,146	-	-	629,146
Electric, gas, and water	670,842	-	-	670,842
Display and programs	996,116	-	-	996,116
Collections	747,746	-	-	747,746
Other general and administrative	1,941,279	-	-	1,941,279
Depreciation	<u>1,174,017</u>	<u>-</u>	<u>-</u>	<u>1,174,017</u>
Total Operating Expenses	<u>15,343,856</u>	<u>-</u>	<u>-</u>	<u>15,343,856</u>
Change in Net Assets from Operations	<u>(2,482,239)</u>	<u>(71,366)</u>	<u>10,000</u>	<u>(2,543,605)</u>
NON-OPERATING ACTIVITIES				
Sale of collection items	1,117,246	-	-	1,117,246
Collections purchased	<u>(1,770,396)</u>	<u>-</u>	<u>-</u>	<u>(1,770,396)</u>
Total Non-Operating Activities	<u>(653,150)</u>	<u>-</u>	<u>-</u>	<u>(653,150)</u>
Change in Net Assets	<u>(3,135,389)</u>	<u>(71,366)</u>	<u>10,000</u>	<u>(3,196,755)</u>
NET ASSETS				
Beginning of year	50,151,623	4,925,044	14,025,373	69,102,040
Donor redesignation	<u>500,000</u>	<u>-</u>	<u>(500,000)</u>	<u>-</u>
End of year	<u>\$ 47,516,234</u>	<u>\$ 4,853,678</u>	<u>\$ 13,535,373</u>	<u>\$ 65,905,285</u>

See notes to financial statements

The Newark Museum Association

Statement of Activities Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING ACTIVITIES				
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 and tours	722,781	-	-	722,781
Educational	425,155	-	-	425,155
Investment return	(117,628)	(56,323)	-	(173,951)
Other revenue	549,838	-	-	549,838
Net assets released from restriction	2,367,473	(2,367,473)	-	-
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	517,938	-	-	517,938
Electric, gas, and water	788,988	-	-	788,988
Display and programs	675,776	-	-	675,776
Collections	544,618	-	-	544,618
Other general and administrative	1,694,990	-	-	1,694,990
Depreciation	1,659,468	-	-	1,659,468
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>
NON-OPERATING ACTIVITIES				
Sale of collection items	447,770	-	-	447,770
Collections purchased	(1,684,389)	-	-	(1,684,389)
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>
NET ASSETS				
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

Statements of Cash Flows

	Year Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (3,196,755)	\$ (5,538,764)
Adjustments to reconcile change in net assets to net cash from operating activities		
Permanently restricted gifts	(10,000)	(507,388)
Depreciation	1,174,017	1,659,468
Bad debt expense	65,936	22,010
Present value discount on contributions receivable	88,630	(8,629)
Realized and unrealized (gain) loss on investments	(2,361,234)	227,101
Purchases and sales of collections, net	653,150	1,236,619
Changes in operating assets and liabilities		
Grants receivable	(32,213)	551,751
Contributions receivable	(818,796)	123,642
Prepaid expenses and other assets	339,610	84,586
Accounts payable and accrued expenses	17,903	(255,274)
Refundable advances	(3,917)	19,000
Net Cash from Operating Activities	(4,083,669)	(2,385,878)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,212,986)	(201,967)
Purchase of investments	(10,228,714)	(16,613,605)
Proceeds from sale of investments	14,096,755	19,318,597
Purchase of collections	(1,770,396)	(1,684,389)
Proceeds from sale of collections	1,117,246	447,770
Net Cash from Investing Activities	2,001,905	1,266,406
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted gifts received	10,000	507,388
Net Change in Cash and Cash Equivalents	(2,071,764)	(612,084)
CASH AND CASH EQUIVALENTS		
Beginning of year	7,808,767	8,420,851
End of year	\$ 5,737,003	\$ 7,808,767

See notes to financial statements

The Newark Museum Association

Notes to Financial Statements
December 31, 2016 and 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, 2016 and 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) 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.

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.

The Newark Museum Association

Notes to Financial Statements
December 31, 2016 and 2015

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

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.

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.

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.

The Newark Museum Association

Notes to Financial Statements
December 31, 2016 and 2015

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

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, 2016 and 2015.

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. 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. (See note 8)

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

The Newark Museum Association

Notes to Financial Statements
December 31, 2016 and 2015

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

Net Asset Classifications (continued)

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.

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, 2016 and 2015.

Contributions

All unconditional contributions are recorded as revenue when received at their fair value. The fair 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 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 statements 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.

The Newark Museum Association

Notes to Financial Statements
December 31, 2016 and 2015

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

Refundable Advances

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

Re-designation of Net Assets

In 2016 the Board received a request from a previous donor to re-designate their contribution previously classified within permanently restricted net assets to unrestricted net assets.

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 2013.

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 23, 2017.

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.

3. Contributions Receivable

Contributions receivable consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Due less than one year	\$ 278,583	\$ 250,537
Due between one year and five years	800,000	45,186
Total	<u>1,078,583</u>	<u>295,723</u>
Less: Allowance for uncollectible accounts	(50,000)	(20,000)
Discount for present value at 5%	(90,800)	(2,170)
	<u>(140,800)</u>	<u>(22,170)</u>
	<u>\$ 937,783</u>	<u>\$ 273,553</u>

The Newark Museum Association

Notes to Financial Statements
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4. Fair Value Measurements *(continued)*

Information regarding investments valued at NAV using the practical expedient at December 31, 2016, is as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled Fund				
Fixed income (see "a" below)	\$ 15,623,928	\$ -	Daily	3 days
Hedge Funds				
Long/short equity (see "b" below)	<u>7,628,296</u>	<u>-</u>	Quarterly	60 days
Total	<u>\$ 23,252,224</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 it is consistent with low volatility returns.
- b. This investment is a long/short equity fund that invests in companies across the market cap spectrum. The fund 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:

	<u>2016</u>	<u>2015</u>
Building improvements	\$51,463,125	\$51,200,942
Furniture, fixtures and equipment	<u>5,044,571</u>	<u>4,536,959</u>
	56,507,696	55,737,901
Accumulated depreciation	<u>(44,927,518)</u>	<u>(43,753,501)</u>
	11,580,178	11,984,400
Construction in progress	<u>578,070</u>	<u>134,879</u>
	<u>\$12,158,248</u>	<u>\$12,119,279</u>

The Newark Museum Association

Notes to Financial Statements
December 31, 2016 and 2015

5. Property and Equipment (continued)

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

	Estimated Useful Life Years	2016	2015
		<u> </u>	<u> </u>
Building improvements	15 to 25	\$1,015,439	\$1,458,432
Furniture, fixtures and equipment	7	<u>158,578</u>	<u>201,036</u>
Total Depreciation		<u>\$1,174,017</u>	<u>\$1,659,468</u>

6. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

	2016	2015
	<u> </u>	<u> </u>
Capital projects	\$ 2,553,663	\$ 1,752,298
Exhibitions	461,857	801,786
Education and other program services	567,878	496,030
Operating, trustees' room and gallery maintenance	<u>1,270,280</u>	<u>1,874,930</u>
	<u>\$ 4,853,678</u>	<u>\$ 4,925,044</u>

The temporarily restricted net assets included unappropriated investment income of \$1,265,807 and \$1,870,457 at December 31, 2016 and 2015, from 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:

	2016	2015
	<u> </u>	<u> </u>
Capital projects	\$ 115,942	\$ 9,785
Exhibitions	559,194	338,604
Education and other program services	875,026	648,642
Operating, trustees' room and gallery maintenance	<u>1,360,153</u>	<u>1,370,442</u>
	<u>\$ 2,910,315</u>	<u>\$ 2,367,473</u>

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Notes to Financial Statements
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7. 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>2016</u>	<u>2015</u>
Education and other program services	\$ 8,870,338	\$ 9,370,338
Operating, trustees' room and gallery maintenance	4,565,035	4,555,035
Art acquisition	<u>100,000</u>	<u>100,000</u>
	<u>\$13,535,373</u>	<u>\$14,025,373</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 \$1,265,807 and \$1,870,457 as of December 31, 2016 and 2015, and are included within temporarily restricted net assets.

Permanently restricted net assets include cumulative matching contributions from the New Jersey Cultural Trust that totaled \$1,014,622 at December 31, 2016 and 2015. 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, 2016 and 2015.

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 generally accepted accounting principles, 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by SPMIFA.

The Newark Museum Association

Notes to Financial Statements
December 31, 2016 and 2015

8. Endowments (*continued*)

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 in a manner that ensures safety through diversification 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.

The following table summarizes the changes in the endowment funds in 2016 and 2015:

	2016			Total
	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 33,712,977	\$ 1,870,457	\$ 14,025,373	\$ 49,608,807
Contributions received	1,117,247	-	10,000	1,127,247
Investment return	1,654,373	755,503	-	2,409,876
Release from restrictions	1,360,153	(1,360,153)	-	-
Transfer of Board-designated assets to operating fund	(736,237)	-	-	(736,237)
Donor redesignation	-	-	(500,000)	(500,000)
Appropriation for operating activities	(3,130,550)	-	-	(3,130,550)
Other adjustments	(15,297)	-	-	(15,297)
Endowment net assets, end of year	<u>\$ 33,962,666</u>	<u>\$ 1,265,807</u>	<u>\$ 13,535,373</u>	<u>\$ 48,763,846</u>

The Newark Museum Association

Notes to Financial Statements
December 31, 2016 and 2015

8. Endowments *(continued)*

	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 return	(117,259)	(56,323)	-	(173,582)
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>

9. Investment return

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

	2016	2015
Dividends and interest	\$ 466,254	\$ 379,671
Net realized and unrealized gains (losses) on investments	2,361,234	(227,101)
Investment management fees	(413,609)	(326,521)
	<u>\$ 2,413,879</u>	<u>\$ (173,951)</u>

10. Functional Expenses

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

	2016	2015
Program Services		
Exhibitions	\$ 3,545,143	\$ 3,013,336
Education and public programs	3,504,783	3,006,576
Registrar and curatorial	3,463,722	3,004,133
Total Program Services	<u>10,513,648</u>	<u>9,024,045</u>
Supporting Services		
General and administrative	2,146,648	2,396,423
Fundraising and development	2,683,560	2,522,443
Total Supporting Services	<u>4,830,208</u>	<u>4,918,866</u>
	<u>\$ 15,343,856</u>	<u>\$ 13,942,911</u>

The Newark Museum Association

Notes to Financial Statements
December 31, 2016 and 2015

11. 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 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. The 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, respectively.

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, 2016 and 2015

11. Retirement Plans *(continued)*

Pension Plan (continued)

The Museum's participation for the Pension Plan's fiscal years ended June 30, 2016 and 2015 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
		2016	2015		2016	2015		
The Cultural Institutions Pension Plan	11-2001170 001	Green	Green	N/A	\$ 542,534	\$ 481,031	No	6/30/2020

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.

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 were suspended for the July 1, 2015 and July 1, 2016 plan years. This change affected the employer matching contributions that otherwise would have been made in July of 2015 and in July of 2016. This did not change the requirement that all CIRS employees contribute at least 2% of their salary to the Savings Plan and does not affect the match that was already made in July of 2013. There was no match made for the years 2014, 2015 and 2016.

At its December 2013 meeting, following recommendations of the Human Resources Committee, the Executive Committee approved giving staff 1% of their salary which they could voluntarily contribute to the Savings Plan. The employees received 1% in 2016 and 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, 2016 and 2015

11. 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 2016 and 2015 totaled \$604,425 and \$551,270, which consisted of \$532,946 and \$487,023 for the Pension Plan, \$0 and \$141 for the Savings Plan, \$14,675 and \$15,110 for Group Life and Welfare Plan, and \$56,804 and \$48,996 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, 2016 and 2015.

12. Commitments

Line of Credit

During 2015, the Museum obtained a line of credit in the 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, 2016 and 2015 the Museum did not have any borrowings against the line of credit agreements.

Leases

Annual minimum future rental payments on equipment under non-cancelable operating leases as of December 31, 2016 are as follows for the years ending December 31:

2017	\$ 49,095
2018	49,095
2019	49,095
2020	<u>27,508</u>
	<u>\$174,793</u>

The Newark Museum Association

Notes to Financial Statements
December 31, 2016 and 2015

12. Commitments

Leases (continued)

Total rent expense amounted to \$55,855 and \$51,408 in 2016 and 2015.

13. 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 94% and 72% of the total balances as of December 31, 2016 and 2015. Approximately 78% and 75% of the Museum's governmental grants and appropriation revenue was received from one governmental agency in 2016 and 2015.

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