

**The Newark Museum Association
(d/b/a The Newark Museum of the Art)**

Financial Statements
December 31, 2019 and 2018

Independent Auditors' Report

Board of Trustees

The Newark Museum Association (d/b/a The Newark Museum of the Art)

We have audited the accompanying financial statements of The Newark Museum Association, (d/b/a The Newark Museum of the Art) (the "Museum") which comprise the statements of financial position as of December 31, 2019 and 2018, 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 (d/b/a The Newark Museum of the Art) as of December 31, 2019 and 2018, 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, 2019 the Museum adopted new accounting guidance including ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions as well ASU 2014-09 Revenue From Contracts with Customers (Topic 606). Our opinion is not modified with respect to this matter.

PKF O'Connor Davies, LLP

March 24, 2020

**The Newark Museum Association
(d/b/a The Newark Museum of the Art)**

Statements of Financial Position

	December 31	
	2019	2018
ASSETS		
Cash and cash equivalents (Note 8)	\$ 4,570,303	\$ 7,487,210
Grants receivable	561,557	504,049
Contributions receivable, net (Note 3)	388,722	1,323,677
Prepaid expenses and other assets	860,324	779,410
Investments (Note 4 and 8)	41,740,469	36,541,684
Property and equipment, net (Note 5)	15,691,653	15,790,464
Museum collections (Note 2)	-	-
	\$ 63,813,028	\$ 62,426,494
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,583,205	\$ 1,148,946
Refundable advances	57,572	37,757
Total Liabilities	1,640,777	1,186,703
Net Assets		
Without donor restrictions (Note 6)	44,647,670	44,336,916
With Donor Restrictions (Note 7)		
Time or purpose restricted	3,825,396	3,213,690
Held in perpetuity	13,699,185	13,689,185
Total Net Assets	62,172,251	61,239,791
	\$ 63,813,028	\$ 62,426,494

See notes to financial statements

**The Newark Museum Association
(d/b/a The Newark Museum of the Art)**

**Statement of Activities
Year Ended December 31, 2019**

	Without Donor Restrictions	With Donor Restrictions		Total
		Time or Purpose Restricted	Held in Perpetuity	
OPERATING ACTIVITIES				
Operating Revenues, Gains, and Other Support				
Governmental grants and appropriations	\$ 5,091,177	\$ -	\$ -	\$ 5,091,177
Contributions and pledges	1,519,363	1,804,601	10,000	3,333,964
Membership and tours	740,205	-	-	740,205
Educational	296,543	-	-	296,543
Investment return designated for operations	1,745,837	667,292	-	2,413,129
Other revenue	887,390	-	-	887,390
Net assets released from restriction	<u>3,225,466</u>	<u>(3,225,466)</u>	<u>-</u>	<u>-</u>
Total Operating Revenues, Gains, and Other Support	<u>13,505,981</u>	<u>(753,573)</u>	<u>10,000</u>	<u>12,762,408</u>
Operating Expenses				
Program services	9,876,664	-	-	9,876,664
General and administrative	2,176,574	-	-	2,176,574
Fundraising and development	<u>2,927,164</u>	<u>-</u>	<u>-</u>	<u>2,927,164</u>
Total Operating Expenses	<u>14,980,402</u>	<u>-</u>	<u>-</u>	<u>14,980,402</u>
Change in Net Assets from Operations	<u>(1,474,421)</u>	<u>(753,573)</u>	<u>10,000</u>	<u>(2,217,994)</u>
NON-OPERATING ACTIVITIES				
Investment return less amounts designated for current operations	1,780,099	1,365,279	-	3,145,378
Sale of collection items	79,726	-	-	79,726
Collections purchased	<u>(74,650)</u>	<u>-</u>	<u>-</u>	<u>(74,650)</u>
Total Non-Operating Activities	<u>1,785,175</u>	<u>1,365,279</u>	<u>-</u>	<u>3,150,454</u>
Change in Net Assets	310,754	611,706	10,000	932,460
NET ASSETS				
Beginning of year	<u>44,336,916</u>	<u>3,213,690</u>	<u>13,689,185</u>	<u>61,239,791</u>
End of year	<u>\$ 44,647,670</u>	<u>\$ 3,825,396</u>	<u>\$ 13,699,185</u>	<u>\$ 62,172,251</u>

See notes to financial statements

The Newark Museum Association
(d/b/a The Newark Museum of the Art)

Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions		Total
		Time or Purpose Restricted	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	(403,974)	(4,070,889)	10,000	(4,464,863)
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
(d/b/a The Newark Museum of the Art)**

Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services				Supporting Services		Total
	Exhibitions	Education and Public Programs	Registrar and Curatorial	Total	General and Administrative	Fundraising and Development	
Salaries and wages	\$ 844,050	\$ 1,751,902	\$ 1,229,176	\$ 3,825,128	\$ 866,248	\$ 1,874,181	\$ 6,565,557
Employee benefits and taxes	423,389	581,933	410,668	1,415,990	226,682	410,668	2,053,340
Professional fees and consultants	253,148	232,060	192,518	677,726	283,552	91,867	1,053,145
Program supplies	143,417	111,780	68,143	323,340	26,643	29,880	379,863
Office expenses	28,404	15,820	144,718	188,942	11,817	18,576	219,335
Travel, conference and meetings	23,447	160,745	27,437	211,629	92,066	67,254	370,949
Marketing expenses	177,143	99,411	66,511	343,065	1,385	149,041	493,491
Occupancy and building maintenance	866,566	172,445	289,156	1,328,167	58,240	71,023	1,457,430
Insurance	144,041	23,281	102,434	269,756	5,167	7,623	282,546
Other general and administrative	44,274	8,816	2,752	55,842	578,730	167,985	802,557
Depreciation	846,422	130,219	260,438	1,237,079	26,044	39,066	1,302,189
Total Expenses	\$ 3,794,301	\$ 3,288,412	\$ 2,793,951	\$ 9,876,664	\$ 2,176,574	\$ 2,927,164	\$ 14,980,402

See notes to financial statements

**The Newark Museum Association
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Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services				Supporting Services		
	Exhibitions	Education and Public Programs	Registrar and Curatorial	Total	General and Administrative	Fundraising and Development	Total
Salaries and wages	\$ 891,520	\$ 1,808,801	\$ 1,264,012	\$ 3,964,333	\$ 712,330	\$ 1,658,916	\$ 6,335,579
Employee benefits and taxes	404,832	574,935	412,248	1,392,015	205,588	399,398	1,997,001
Professional fees and consultants	144,233	249,762	176,831	570,826	208,565	56,715	836,106
Program supplies	100,520	129,862	51,381	281,763	19,960	32,766	334,489
Office expenses	52,068	19,609	128,206	199,883	12,882	42,595	255,360
Travel, conference and meetings	26,100	55,353	7,853	89,306	47,859	58,259	195,424
Marketing expenses	107,173	100,920	59,574	267,667	5,220	216,996	489,883
Occupancy and building maintenance	834,031	172,214	408,388	1,414,633	62,786	73,402	1,550,821
Insurance	149,083	24,057	104,048	277,188	5,323	7,856	290,367
Other general and administrative	15,632	66,391	10,904	92,927	292,696	141,460	527,083
Depreciation	783,309	120,509	241,018	1,144,836	24,101	36,153	1,205,090
Total Expenses	<u>\$ 3,508,501</u>	<u>\$ 3,322,413</u>	<u>\$ 2,864,463</u>	<u>\$ 9,695,377</u>	<u>\$ 1,597,310</u>	<u>\$ 2,724,516</u>	<u>\$ 14,017,203</u>

See notes to financial statements

The Newark Museum Association
(d/b/a The Newark Museum of the Art)

Statements of Cash Flows

	Year Ended	
	December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 932,460	\$ (4,464,863)
Adjustments to reconcile change in net assets to net cash from operating activities		
Endowment funds gifts	(10,000)	(10,000)
Depreciation	1,302,189	1,205,090
Present value discount on contributions receivable	(19,881)	(52,514)
Realized and unrealized (gain) loss on investments	(4,666,703)	1,786,196
Purchase of collections	74,650	671,885
Proceeds from sale of collections	(79,726)	(219,688)
Changes in operating assets and liabilities		
Grants receivable	(57,508)	69,732
Contributions receivable	954,836	1,087,838
Prepaid expenses and other assets	(80,914)	(324,078)
Accounts payable and accrued expenses	434,259	(353,278)
Refundable advances	19,815	36,805
Net Cash from Operating Activities	(1,196,523)	(566,875)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,203,378)	(2,202,887)
Purchase of investments	(18,271,686)	(41,336,971)
Proceeds from sale of investments	17,739,604	43,818,184
Purchase of collections	(74,650)	(671,885)
Proceeds from sale of collections	79,726	219,688
Net Cash from Investing Activities	(1,730,384)	(173,871)
CASH FLOWS FROM FINANCING ACTIVITIES		
Endowment funds gifts received	10,000	10,000
Net Change in Cash and Cash Equivalents	(2,916,907)	(730,746)
CASH AND CASH EQUIVALENTS		
Beginning of year	7,487,210	8,217,956
End of year	\$ 4,570,303	\$ 7,487,210

See notes to financial statements

**The Newark Museum Association
(d/b/a The Newark Museum of the Art)**

Notes to Financial Statements
December 31, 2019 and 2018

1. The Museum

Founded in 1909, The Newark Museum Association (d/b/a The Newark Museum of the Art) (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 celebrated its 45th anniversary year in 2019.

**The Newark Museum Association
(d/b/a The Newark Museum of the Art)**

Notes to Financial Statements
December 31, 2019 and 2018

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

Revenue from Contracts with Customers

Effective January 1, 2019, the Museum adopted ASU 2014-09, *Revenue from Contracts with Customers*, as amended.

The guidance provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new revenue recognition guidance does not apply to how contributions and pledges are recognized, as they are specifically scoped out of the new guidance. The core principle of the new guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those promised goods or services to customers. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this guidance requires new or expanded disclosures related to judgments made by entities when following this framework.

The Museum has multiple revenue streams that are accounted for as exchange transactions including admissions, membership and auxiliary activities. Analysis of various provisions of this standard resulted in no significant changes in the way the Museum recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. When revenue is earned over a period that spans the year-end, it is recognized in the applicable period in which it is earned (i.e. membership fees). The new guidance requires the Museum to not recognize revenue until it is probable of collection. Based on the Museum's strong collection experience, the Museum has concluded that all revenue recognized is probable of collection.

Recognition of Contributions

Effective January 1, 2019, the Museum adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). This guidance provides a framework for evaluating whether grants should be accounted for as exchange transactions or as nonexchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the Museum recognizes contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

**The Newark Museum Association
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Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

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.

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
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Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Investments Risks and Uncertainties

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 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, 2019 and 2018.

**The Newark Museum Association
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Notes to Financial Statements
December 31, 2019 and 2018

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

As per ASU 2018-08, other government grants that the Museum deems have no commensurate value being exchanged, 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, 2019 and 2018.

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
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Notes to Financial Statements
December 31, 2019 and 2018

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
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Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Advertising Expense

Advertising is recorded as expense in the period incurred. Advertising expense for the years ended December 31, 2019 and 2018 was \$180,037 and \$291,573.

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. 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 2016.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 24, 2020.

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 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.

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3. Contributions Receivable

Contributions receivable consisted of the following at December 31:

	2019	2018
Due less than one year	\$ 214,998	\$ 980,000
Due between one year and five years	204,542	423,376
Total	419,540	1,403,376
Less: Allowance for uncollectible accounts	(21,000)	(50,000)
Discount for present value at 5%	(9,818)	(29,699)
	\$ 388,722	\$ 1,323,677

4. Fair Value Measurements

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

	2019		
	Level 1	Level 2	Total
Equities			
US Large Cap	\$ 9,085,904	\$ -	\$ 9,085,904
US Mid Cap	4,138,730	-	4,138,730
US Small Cap	3,319,541	-	3,319,541
International Developed	3,764,202	-	3,764,202
Emerging Markets	1,905,271	-	1,905,271
Commodities	1,452,846	-	1,452,846
Fixed income securities	-	8,790,464	8,790,464
Hedge funds	4,874,132	-	4,874,132
Total Investments Measured at Fair Value	\$28,540,626	\$ 8,790,464	37,331,090
Money market funds, at cost			4,409,379
Total Investments			\$41,740,469
	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	\$ 16,033,606	\$ 9,011,556	25,045,162
Money market funds, at cost			5,704,820
Investment receivable			5,791,702
Total Investments			\$ 36,541,684

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5. Property and Equipment

Property and equipment consisted of the following at December 31:

	2019	2018
Building improvements	\$ 60,123,929	\$58,740,535
Furniture, fixtures and equipment	3,077,892	2,942,424
Information technology	682,176	668,932
	63,883,997	62,351,891
Less: Accumulated depreciation	(48,420,562)	(47,118,373)
	15,463,435	15,233,518
Construction in progress	228,218	556,946
	\$ 15,691,653	\$15,790,464

6. Net Assets without Donor Restrictions

The Board of Trustees of the Museum designated \$26,776,288 and \$24,334,936 of net assets without donor restrictions to be included in the Museum's endowment as of December 31, 2019 and 2018.

7. Net Assets with Donor Restrictions

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

	2019	2018
Capital projects	\$ 1,414,255	\$ 1,289,718
Exhibitions	-	213,375
Education and other program services	734,346	1,399,081
Operating, trustees' room and gallery maintenance	1,676,795	311,516
	\$ 3,825,396	\$ 3,213,690

The above restricted net assets include unappropriated investment income of \$1,759,347 and \$394,066 at December 31, 2019 and 2018, from endowment fund net assets.

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Notes to Financial Statements
December 31, 2019 and 2018

7. Net Assets with Donor Restrictions (continued)

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

	2019	2018
Capital projects	\$ 875,463	\$ 3,908,553
Exhibitions	314,090	457,215
Education and other program services	1,368,621	1,790,713
Operating, trustees' room and gallery maintenance	667,292	609,083
	\$ 3,225,466	\$ 6,765,564

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

	2019	2018
Education and other program services	\$ 8,870,338	\$ 8,870,338
Operating, trustees' room and gallery maintenance	4,728,847	4,718,847
Art acquisition	100,000	100,000
	\$ 13,699,185	\$ 13,689,185

Accumulated income and appreciation of assets underlying investments held in perpetuity that have not yet been appropriated by the Board for expenditure amounted to \$1,759,347 and \$394,066 as of December 31, 2019 and 2018, 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, 2019 and 2018. A cumulative total of as of December 31, 2019 and 2018 of \$5,138,115 of the Museum's contributions represents 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, 2019 and 2018.

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.

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8. Endowments (continued)

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 following table summarizes the changes in the endowment funds in 2019 and 2018:

	2019			
	Board Designated	Time or Purpose Restricted	Held in Perpetuity	Total
Endowment net assets, beginning of year	\$ 24,334,936	\$ 394,066	\$ 13,689,185	\$ 38,418,187
Contributions received	79,726	-	10,000	89,726
Investment return	3,516,658	2,032,573	-	5,549,231
Release from restrictions	667,292	(667,292)	-	-
Transfer of board-designated assets to operating fund	(1,003,895)	-	-	(1,003,895)
Appropriation for operating activities	(741,942)	-	-	(741,942)
Other adjustments	(76,487)	-	-	(76,487)
Endowment net assets, end of year	<u>\$ 26,776,288</u>	<u>\$ 1,759,347</u>	<u>\$ 13,699,185</u>	<u>\$ 42,234,820</u>

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8. Endowments (continued)

	2018			
	Board Designated	Time or Purpose Restricted	Held in Perpetuity	Total
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>

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

	2019	2018
Cash and cash equivalents	\$ 473,181	\$ 1,852,300
Investments	41,740,469	36,541,684
Accrued interest	21,170	24,203
	<u>\$ 42,234,820</u>	<u>\$ 38,418,187</u>

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 Americans with Disabilities Act ("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. The Project was completed in 2018. As of December 31, 2019, the outstanding principal to the endowment is \$2,109,245. The Museum is paying interest on the unpaid balance at the federal mid-term rate of 1.58% (the rate as of April 2017) to be compounded annually for the 9 years of the loan. This amount can be paid over time or as a single balloon payment on April 1, 2026.

9. Liquidity and Availability of Financial Assets

The following reflect the Museum's financial assets as of December 31, 2019, 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. Amounts not available include amounts set aside for operating and other revenues that could be drawn upon with Board approval.

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Notes to Financial Statements
December 31, 2019 and 2018

9. Liquidity and Availability of Financial Assets (continued)

Financial Assets:	
Cash and cash equivalents	\$ 4,570,303
Grants receivable	561,557
Contributions receivable	388,722
Investments	41,740,469
Endowment fund appropriation for following year	<u>653,084</u>
Total Financial Assets	<u>47,914,135</u>
Less: Contractual, donor or internally restricted amounts	
Contributions receivable, net - Due in future years	173,724
Restricted by donor with time or purpose restrictions	1,892,325
Endowment funds:	
Board designated reserve fund	26,776,288
Donor restricted endowment funds	<u>15,458,532</u>
	<u>44,300,869</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,613,266</u>

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.

As discussed further in Note 11, the Museum is temporarily closed to the public due to the spread of the COVID-19 virus. Although the impact on the Museum cannot be reasonably estimated at this point, this will have an impact on the Museum's liquidity and availability of resources to meet general expenditures in the next twelve months. 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 \$26,776,288 is subject to an annual spending rate of 4% as described in Note 8. 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.

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Notes to Financial Statements
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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 for the fiscal years ended June 30, 2019 and 2018. 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.

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, 2019 and 2018 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
		2019	2018		2019	2018		
The Cultural Institutions Pension Plan	11-2001170 001	Green	Green	N/A	\$ 609,520	\$ 661,697	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% funded. The Museum’s contributions to the Pension Plan did not exceed 5% of a plan’s total contributions for the years ended June 30, 2019 and 2018.

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Notes to Financial Statements
December 31, 2019 and 2018

10. Retirement Plans (continued)

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.

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

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 Plans for the year ended December 31 2019 and 2018 totaled \$646,810 and \$685,073, which consisted of \$558,937 and \$593,704 for the Pension Plan, \$12,845 and \$14,465 for Group Life and Welfare Plan, and \$75,029 and \$76,904 for plan administration.

11. Commitments, Contingencies and Subsequent Events

Line of Credit

The Museum has a line of credit available in the amount of \$2,000,000, through February 2022. Borrowings under the line of credit are available in the form of advances 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, 2019 and 2018 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, 2019 for the year ending December 31, 2020 is \$27,508, which expires in one year.

Total rent expense amounted to \$66,407 and \$58,503 in 2019 and 2018.

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11. Commitments, Contingencies and Subsequent Events (continued)

Subsequent Event

Subsequent to year-end, the COVID-19 pandemic has resulted in substantial volatility in the global financial markets. As a result, the Museum's investment portfolio has incurred a significant decline in its fair value since December 31, 2019. Because the value of the Museum's individual investments have and will fluctuate in response to changing market conditions, the amount of losses, if any, that will be recognized in subsequent periods cannot be determined.

On March 14, 2020, the Museum was temporarily closed to the public. This was done in response to guidance provided by state and local governments regarding large public gatherings and as a precautionary measure to limit opportunities for the spread of the COVID-19 virus. While the Museum was not ordered to close by any government agency, it did so voluntarily in order to safeguard the health of its visitors and employees. Other cultural institutions in New York City and New Jersey also voluntarily closed. At the time these financial statements were issued, the Museum does not know when it will reopen. The closure had no impact on the 2019 financial statements, but will likely adversely affect the Museum's financial position and operating results in 2020. If the outbreak continues and conditions worsen, the Museum may experience a disruption in operations as well as a decline in future contributions, government funding and the possibility of re-evaluating the collectability of its current receivable balances. The outbreak is likely to adversely affect the Museum's on an interim basis and cannot be reasonably estimated at this time.

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 95% and 60% of the total balances as of December 31, 2019 and 2018. Approximately 79% and 78% of the Museum's governmental grants and appropriation revenue was received from one governmental agency in 2019 and 2018.

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